

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

aS441
:S7
:v.2

AD-33 Bookplate
(1-68)

NATIONAL

**A
G
R
I
C
U
L
T
U
R
A
L**



LIBRARY

U. S. DEPARTMENT OF AGRICULTURE

-----X

In the Matter of: :

STRUCTURE OF AMERICAN AGRICULTURE :
AND RURAL COMMUNITIES

:-----X

VOLUME II

9:10 a.m.
April 30, 198014th & Independence
Jefferson Auditorium
Washington, D. C.BEFORE: Secretary of Agriculture,
BOB BERGLAND

ALSO PRESENT:

J. B. PENN

HOWARD HJORT

Assistant Secretary RUPERT CUTLER

U.S. DEPT. OF AGRICULTURE
NATIONAL AGRICULTURAL LIBRARY

APR 27 1981

CATALOGING = PREP.

C O N T E N T SPageAGRICULTURE AND THE ECONOMY PANEL

Dr. Paul Johnson, North Carolina State University	311
Ms. Robin Rosenbluth, National Family Farm Coalition	315
Mr. Sheldon J. Hauck, National Soybean Processors Association	321
Dr. Robert Thompson, Perdue University	328
Mr. John Wallace, United Egg Producers	333
Mr. Roger J. Stroh, United Fresh Fruit and Vegetable Association	337

CAPITAL, CREDIT AND DEBT IN FARMING PANEL

Mr. Marlin D. Jackson, American Bankers Association	363
Dr. Peter Barry, University of Illinois	366
Mr. Donald E. Wilkinson, Farm Credit Administration	370
Mr. Thomas H. Olson, Independent Bankers Association of America	374
Mr. Merlyn Carlson, National Cattlemen's Association	378

CONSERVATION, RESOURCE USE AND THE ENVIRONMENT PANEL

Dr. W. R. Z. Willey, Environment Defense Fund	415
Rev. Dr. Charles Bergstron, Lutheran Council of the USA	419
Mr. Neil Sampson, National Association of Conservation Districts	422
Mr. Robert Rodale, Rodale Press	426
Dr. Garth Youngberg, Southeast Missouri State University	430

C O N T E N T S (continued)

	<u>Page</u>
James Sanford, President, Southern Cotton Growers, Inc.	459
 <u>ROLE OF GOVERNMENT: REGULATION AND RISK MANAGEMENT IN AGRICULTURE PANEL</u>	
Gail McPherson, American Agri-Women	467
Mr. Clarence D. Palmby, Chamber of Commerce of the U. S.	472
Mr. Jack Felgenhauer, National Association of Wheat Growers	474
Mr. William Mullins, National Corn Growers Association	478
Dr. Luther Tweeten, Oklahoma State University	482
Mrs. Nita Gibson, Women Involved in Farm Economics	486
 <u>AGRICULTURE AND DEVELOPMENT PANEL</u>	
Dr. Amos H. Hawley, University of North Carolina	525
Mr. Don Reeves, Interreligious Task Force on U. S. Food Policy	528
Dr. J. Patrick Madden, Department of Agricultural Economics & Rural Sociology Pennsylvania State University	532
Dr. Gale Vanderberg, University of Wisconsin	537
Rep. Dale Locker, National Conference of State Legislators	543

P R O C E E D I N G S

SECRETARY BERGLAND: I want to apologize for the dealy this morning. I was invited to a meeting that I couldn't refuse.

We will resume the schedule, and the first panel will discuss Agriculture and the Ecomony, and the panel is made up of Dr. Paul Johnson, Department of Economics, North Carolina State University.

From the National Family Farm Coalition, Ms. Robin Rosenbluth.

From the National Soybean Processors Association, Mr. Sheldon Hauck.

From Perdue University, Dr. Robert Thompson.

From the United Egg Producers, Mr. John Wallace, and from the United Fresh Fruit and Vegetable Association, Mr. Roger Stroh.

If it is all right with you, we will proceed in the order they appear on the agenda.

Dr. Paul Johnson.

DR. JOHNSON: Thank you, Mr. Secretary. I shall restrict my comments to the areas of macro economic policy and international trade.

Academics are allowed the luxury of thinking in terms of the long run, and that is the context of these brief remarks. I want to emphasize this point of view since

1 I believe that we need a sharper distinction between crises
2 and adjustments to relative prices changes.

3 The large run-up in energy prices has presented
4 serious adjustment problems to agriculture as well as other
5 sectors of the economy. But there is, and should be, a
6 distinction between a price increase and, say, a ban by
7 foreign suppliers of exports to us.

8 On the subject of inflation, I think it is well
9 to keep in mind that the process does not originate in a
10 agriculture. Even though journalists and others single
11 out food price changes for comparisons, the inflation rate
12 is a monetary phenomenon.

13 We do not know enough about causality that might
14 run the other way -- from an overall inflation to particular
15 prices.

16 Martin Feldstein of Harvard has dicussed one link
17 that is important to agriculture, however. Income tax
18 laws treat capital gains differently than other income. Land
19 is a non-depreciating asset, and stands on a different
20 footing than capital assets.

21 The consequence is that land as a store of value
22 will get bid up more in price than the overall price level.
23 If this analysis is right, we must recognize that the
24 relative price change comes from overall tax policy, and
25 inflation. Neither of these is controllable from within

1 agriculture.

2 I think we are observing an upsurge in protection-
3 ist sentiment in the U. S. An increase in tariffs or non-
4 tariff barriers on imports might not have serious short
5 run effects on grain exports, for instance.

6 But the long run implications might be different.
7 This is precisely why the current grain embargo is not
8 universally supported in this country.

9 Regardless of questions about whether the embargo
10 will work or not, the world view of the U. S. as a stable
11 source of supply is adversely affected.

12 Two questions that are raised in the background
13 material for these meetings need comment. Foreign markets
14 for our agricultural products are described as inherently
15 unstable, and a goal of policy is described as one of
16 maximizing exports.

17 On the first point, I would be careful about
18 describing markets as unstable. Most people use unstable
19 in this context as meaning large swings in prices. Grain
20 markets, for instance, in the 70's have experienced such
21 swings.

22 The two root causes of these swings are the
23 elasticity of demand for these products and governmental
24 activity. The largest swings in international grain prices
25 have followed policy shifts in the USSR, but they are a

1 state trader, and their behavior is not easily analyzed
2 in a market framework.

3 In addition, capricious behavior has been observed
4 by governments of both grain exporting and importing nations.

5 Just as importantly, and this is related to the
6 second point on maximizing exports, policy shifts in the U.S.
7 that try to change the domestic price of a product will have
8 similar effects.

9 Attempts to insulate a domestic market from inter-
10 national markets are always costly in the devices needed to
11 carry them out.

12 In the language of economics, the U. S. has a
13 comparative advantage in the production of grains and oilseeds.
14 We can produce these goods with fewer resources than many
15 other nations.

16 In such a situation other nations can obtain grains
17 from the U. S. cheaper than producing it. U. S. farmers
18 are growing crops and producing animals in response to
19 market signals. Consumers here and abroad are adjusting
20 their market baskets with respect to the same signals.

21 We are not maximizing exports. We are simply very
22 good at producing something people value. If we or other
23 nations distort the signals the world is simply less
24 efficient in producing and consuming.

25 As a member of the GATT the U. S. is committed to

1 a policy of reducing trade barriers. Increased protectionism,
2 whether it is in agriculture or automobiles or whatever,
3 is inconsistent with that policy.

4 Thank you.

5 SECRETARY BERGLAND: Thank you very much, Dr.
6 Johnson, and now Ms. Rosenbluth.

7 MS. ROSENBLUTH. My name is Robin Rosenbluth and
8 I am Coordinator of the National Family Farm Coalition.

9 The Coalition is a national membership organization
10 created to bring together farmers and non-farmers to help
11 change U. S. agriculture polciies so that they support and
12 encourage small and moderate sized family farms.

13 I will speak today about agriculture and our
14 economy. Much of what I want to convey is often not addressed
15 by economists. Many economists have been trained to
16 identify economic factors alone. Often separated from the
17 social and political factors.

18 As an organizer, I have learned from practical
19 experience that these factors are not separated on the farm
20 and should not be separated in policy formulation. People's
21 lives matter as much as economic data. One need not be an
22 ecomonomist to know that the agricultural sector of economy
23 is in trouble.

24 Agriculture is absolutely vital to our national
25 economy. Yet it is hurting desperately. We can clearly see

1 the trends in the structure of agriculture reflecting a system
2 of agriculture which increasingly supports a few large scale
3 or corporate agri-business firms along with many smaller
4 farmers who survive on income they earn from jobs off the
5 farm.

6 I am sure that I do not need to define in the
7 short time allotted all the problems I see in the structure
8 of agriculture. I am sure you have heard quite a bit by now.

9 However, I would like to point out the contradictions
10 I see between USDA documentation and rhetoric supporting
11 family farms in constrast with USDA programs, market place
12 realities and Government policies.

13 USDA studies have well documented the greater
14 efficiency of the small and moderate sized family farms
15 in terms of yield per acre and output per person hour.

16 However, when we examine the market place realities
17 we find total profits are increased when farms grow beyond
18 this documented economically efficient size.

19 In examining farm efficiency, I find that conventional
20 definitions do not factor in environmental or social impacts
21 of farm technology and production methods, the effect of long
22 term yields on soil fertility and loss, the quality or
23 nutritional value of the food produced or the health effects
24 of farm technology on farmworkers, farmers, rural communities
25 or consumers.

1 In spite of the efficiency of smaller farms noted,
2 your own USDA figures again predict a loss of yet another
3 800,000 farms by just 1986, more than one-third of all our
4 farms today. This loss can be stopped by national policy
5 changes.

6 Much of the change in our structure of agriculture
7 became apparent after World War II. Before World War II,
8 very little credit was used to finance farm capital accumu-
9 lation. Since that time the trend toward external financing
10 has intensified.

11 Also since that time the introduction of new
12 technology has not only increased the size of farms required
13 for a viable production unit, but has increased the need for
14 capital requirements.

15 USDA has documented that the average capital require-
16 ment for new farms may be more than a half a million dollars.
17 If a farm were to handle sales of over \$100,000 the capital
18 investment would be over \$1 million.

19 How can a young farmer get started in farming today?
20 Increased credit is needed for high real estate prices,
21 production costs and increased large equipment reflecting a
22 decline in internally generated funds.

23 As more farmers seek loans and debts rise, banks
24 increase their collateral requirements. As farm debt increases
25 and farm income declines, we find that agriculture becomes

1 much less financially stable in our economy. Wealth has
2 increased more from rising land values than from farming
3 activities. Family farmers are being forced to refinance
4 at high interest rates to dispose of farm assets to repay
5 debts, or lose their farms.

6 Yet some farms are continuing to grow and expand.
7 Many of our laws that were designed to serve the family
8 farmer now serve the largest farmers and non-farm investors.

9 Tax Shelters have contributed to the rising demand
10 for agriculutral land and create advantages for those
11 larger or agribusiness corporations which have other sources
12 of high incomes.

13 Taking advantage of current laws usually require
14 the services of lawyers. Legal services are available for
15 everyone. However, the relative costs for larger farm units,
16 particularly those vertically integrated corporations, is much
17 lower.

18 Farms which produce large quantities of commodities
19 hold the advantage in commanding access to the limited number
20 of markets. Cooperatives can help smaller farms to balance
21 the pecuniary economic advantages of large farms. Yet the
22 Farmers Cooperative Service has been one of the most under-
23 funded services in USDA.

24 Todays high inflation only exacerbates farmers'
25 problems. They face increased costs of machinery, seeds,

1 fertilizers, pesticides, herbicides, fuel, land, and of course
2 credit.

3 Yet farm prices remain dramatically low. In times
4 of economic crisis the Government has often intervened.
5 I can easily dismiss the sentiment of some people who "want
6 the Government out of agriculture". If the Government does
7 not take any positive actions, we will have a country run
8 completely by the financial interests of today's trans-
9 national corporations, not the free market.

10 The instability of the market can work to the
11 advantage of the largest producers. They are ready, and
12 able, to buy out farmers who have no other financial resources
13 to fall back on during market busts.

14 Both farmers and consumers face increasing costs
15 as they purchase from a decreasing number of firms. We all
16 have seen the problems of concentration in the oil industry.
17 If a few corporate firms produce, process and distribute all
18 our food goods, what is going to make them different from
19 those seeking profits like Exxon has recently obtained or
20 OPEC for that matter?

21 I strongly recommend that you review the Family
22 Farm Development Act. H. R. 6295. This Bill, endorsed
23 by thousands of people around the country, farmers, farmworkers,
24 consumers, environmentalists, labor unionists and churches,
25 seeks to remove the present bias in our laws today which

1 supports large and corporate farms. I would like to submit
2 a summary of the Bill into the record.

3 This Bill would:

4 One, create a family farm development service in
5 USDA to develop, coordinate and evaluate USDA activities
6 focusing on family farms;

7 Two, reorient research priorities to include study
8 on such subjects as environmentally protective agriculture
9 and energy efficient technologies; develop educational,
10 training and demonstration programs.

11 For example, training one state UDSA agent in
12 appropriate technology installation and operation or develop-
13 ing an apprenticeship program for farmers to learn new farm
14 techniques.

15 Three, offer revolving loans to communities for
16 family farm ownership;

17 Four, make credit available to farmers for small
18 scale alcohol production, sustainable agricultural techniques
19 and appropriate technologies;

20 Five, create marketing programs, particularly for
21 innovative direct markets, and expand the authority of some
22 present programs;

23 Six, provide legal services for limited resource
24 farmers through increased funding to the Legal Services
25 Corporation;

Seven, set up a Food Price Review Board. 321

Obviously, we also recognize the extreme importance of Federal policies dealing with income and price. The NFFC is presently engaged in our own national dialogue to democratically develop our legislative position on price policies. We are polling our members and working through our network of local organizers to educate and bring together both farmers and non-farmers to understand the importance of our future agriculture policies and their effect on us all.

Our choice of agriculture policies depends, naturally, on the goals we hold. Thank you.

SECRETARY BERGLAND: Thank you very much, Ms. Rosenbluth.

Now, to Sheldon Hauck.

MR. HAUCK: Thank you very much. Our remarks are based on the dialogues that were held around the country.

I hope that I can contribute the perspective of an American industry which is immersed in world commerce, the continuing health and prosperity of which depends upon increasing global economic interdependence through trade.

In responding to the issues, I also hope that the fundamental tenets of an international trade policy for American agriculture will emerge which my industry believes is not only in its own interest, but also is in the interest of this country and long range global economic and political

1 stability.

2 As a point of departure, I observe that no par-
3 ticipant in the series of dialogues has seriously disputed
4 the central and critical contribution which American agri-
5 cultural exports make to our Nation's balance of trade and
6 to the alleviation of global hunger.

7 Rather, the concerns expressed about the future
8 course of American agricultural trade policies reflect a
9 people struggling to cope with their perceptions of a world
10 of limited natural, human, and capital resources against the
11 backdrop of an uncertain future.

12 While the recognition of limitations is essential
13 to later progress towards solutions, I would suggest that
14 we ought not let what the novelist Alvin Toffler has called
15 "future shock" be the determinant of our trade policy.

16 Rather, we ought to take constructive steps to
17 pursue with increasing vigor an international trade policy
18 for American agriculture which, one, plans for increasing
19 global demands upon available food supplies; two, develops
20 markets for American agricultural exports; and, three,
21 makes optimum use of our comparative and natural advantages.

22 It is in the context of such a policy that I will
23 address the issues and concerns raised about the future of
24 American agricultural trade.

25 Planning for Global Demands on Available Food

1 Supplies.

2 The people of the world today increasingly demand
3 the protein and food energy stored in oilseeds and oilseed
4 products as they strive to upgrade their diets.

5 My industry is strongly committed to meeting
6 part of that demand through growth in American agricultural
7 exports and American agricultural productivity. During
8 these dialogues, however, people have been asking two
9 fundamental questions about the wisdom of such a future
10 course.

11 First, people have been wondering whether such
12 growth can or should be sustained, and, second, they
13 have been asking "are we borrowing against the future by
14 increasing agricultural exports in the present?"

15 My answer, and my industry's answer, to the former
16 question is, an emphatic yes. Not only can such growth
17 be sustained, it must be sustained in my industry's, our
18 country's, and the global interest, particularly in view of
19 the alternatives.

20 To the latter question, my answer and my industry's
21 answer, is an emphatic no. On the contrary, increasing
22 American agricultural exports helps to ensure that there
23 will be a livable future for adequate food supplies are the
24 foundation of global economic and political stability.

25 With this perspective in mind, I turn to some of the

specific questions raised concerning our future course. Participants were asking about the impact to date of our increasing agricultural exports upon soil depletion and energy resources and about the likely future impact should we pursue a policy of export maximization.

In response to these questions, let me say that soil depletion and the exhaustion of nonrenewable energy resources are not caused by agricultural exports. Nor will increasing agricultural exports in the future cause soil depletion or energy exhaustion.

First, soil depletion represents the fruit of unenlightened or misguided land management policies and agricultural techniques which result in the destruction of arable land through erosion and inadequate mineral replenishment.

We have only to recall the dust bowls of the 1930's to realize the fruits of such policies and techniques. Likewise, events since that time have proven that enlightenment and proper management render such problems surmountable and soluble.

Second, we all know that American agriculture has become more energy intensive due to the mechanization of techniques and the energy costs associated with the production of chemical fertilizers.

Our consciousness of the interrelationships between

1 food production and energy use should spur us collectively on
2 to significantly underwrite basic agricultural research
3 and technological innovation to assure even greater pro-
4 ductivity in both food and energy for future generations.

5 Whether the tractors of the future will burn
6 soybean oil in lieu of diesel, or whether solar applications
7 will supply most on-farm energy requirements in the future,
8 I can't say. I can say, however, that both these and other
9 approaches are being tried with some success in the present
10 and augur tomorrow's potentialities.

11 Fortunately, our country's agricultural resources,
12 unlike fossil fuels, are renewable, are very productive, and
13 are capable of even greater productivity.

14 Coupled with policies which vigorously support
15 basic agricultural research, enlightened land management,
16 and technological innovation, American agriculture will
17 continue to be able to supply a substantial portion of
18 global food demand without soil depletion and without
19 energy exhaustion.

20 Developing Markets for American Agricultural Exports.

21 Inextricably intertwined with policies which plan
22 for global food demands are policies which foster the
23 development of foreign markets for American agricultural
24 exports.

25 My industry applauds the foreign market development

1 efforts of the Foreign Agricultural Service to date and
2 urges that even more be done in the future.

3 My industry is firmly committed to increasing both
4 the quantity and the quality of our agricultural exports
5 to service our existing developed markets and to meet the
6 needs of emerging nations.

7 Today's and tomorrow's tremendous potential for
8 American export growth will come from the protein-deficient
9 developing countries and the centrally-planned economies.

10 In light of this fact, our nation's export develop-
11 ment program must be reoriented to focus upon the
12 developing nations of the third world, and the centrally
13 planned economies, such as Eastern Europe, the Soviet Union,
14 and the People's Republic of China. Not only is such
15 a policy orientation consistent with my industry's continued
16 health and prosperity, but also our nation's and the
17 global interest will be well served through the greater
18 economic and political interdependence which would result from
19 such a policy.

20 While I naturally cannot see into the indefinite
21 future, for the foreseeable future, the maximization of our
22 agricultural exports appears to be in everyone's interest.

23 Farm structure is not so much affected by the level
24 of exports as it is by the economies of scale and operating
25 efficiencies which promote the highest levels of productivity.

1 In turn, the highest levels of productivity are
2 desirable in light of the increasing worldwide demand for
3 our agricultural products. No longer are we faced with the
4 large surpluses of the 1950's and 1960's which we had to give
5 away; more and more of our exports move in commercial
6 channels under our free international commodity trading
7 system.

8 In this context, to seriously suggest that we
9 should decrease our farm exports would invite disaster
10 for our balance of payments and our economy in general.

11 The harvest to be reaped from such a policy would
12 be lower farm income, fewer jobs for our people, and a
13 declining standard of living. For our trading partners who
14 have come to rely upon us for food supplies, and for
15 those emerging nations which hope to develop similar trading
16 relationships with us, such a policy would force us to offer
17 less for more or nothing at all.

18 Such a policy would contribute to global destabiliza-
19 tion.

20 Closely related to these concerns, some partici-
21 pants in the dialogues asked whether our country should
22 rely on foreign markets at all, assuming that such markets
23 are inherently unstable?

24 Further, they asked, can we pursue a policy which
25 effectively manages instability and avoids adversity?

1 In response to these concerns, I submit that, like
2 it or not global interdependence is a fact of life. We
3 have no choice but to rely on foreign markets, whatever
4 their perceived inherent instability.

5 I would further submit that we can actively promote
6 stability in these foreign markets through increasing our
7 exports and reliance upon them.

8 In addition, our policy should not be oriented
9 towards "managing instability". Such a policy is
10 negative and reactive by nature. Rather, our policy should
11 be positive and active in orientation, actively promoting
12 stability through the increased economic interdependence
13 which our agricultural export trade provides.

14 To pursue a policy which avoids reliance upon
15 foreign markets because of potential adversities would
16 amount to a retreat from our responsibilities into an
17 isolationism which has been discredited by history and which
18 is antithetical to our own best interest.

19 I have more to say, but my time is up. Thank you.

20 SECRETARY BERGLAND: Thank you. I have been read-
21 ing through your statement, and I will ask you some ques-
22 tions on it later on.

23 Dr. Thompson.

24 DR. THOMPSON: Mr. Secretary, my comments this
25 morning concern export demand in the United States.

1 In the early 1950's, the upward shift in export
2 demand, monetary expansion, and the dollar devaluation
3 raised internal U. S. farm and food prices. These
4 farm price increases, and the associated increases in farm
5 income were quickly bid into the price of farmland. The
6 increase in crop prices favored most the larger farmers
7 who sell the most output.

8 The taxation system encouraged them to buy more land
9 and, often larger, machinery, rather than paying large
10 fractions of the income gains to Uncle Sam.

11 To the extent the larger machinery was bought,
12 this likely reinforced the tendency for farmers to acquire
13 more land to efficiently use the larger machinery.

14 The medium sized farmer appears to have been the
15 most disadvantaged here. His volume of sales was smaller,
16 and he was less able to take advantage of the tax breaks
17 available to the largest farmers.

18 Parenthetically, small farmers were less disadvantaged
19 since, on the average, their non-farm income exceeds that
20 from the farm.

21 So, a number of medium sized farms sold out to
22 larger farms. In this sense, the large increases in farm
23 income which accompanied the expanded exports contributed to
24 the growth in average size of farm and to the reduction in
25 the number of farms.

1 The greater reliance in the 1970's on exports as
2 a market for U. S. crops has also brought greater price
3 and income instability to American agriculture. The instab-
4 ility of our export demand is principally associated with
5 annual crop variability in the rest of the world, and is
6 magnified by the restrictive trade policies followed by
7 many countries which protect their internal markets
8 from sharing in the adjustment to any shock to the world
9 system.

10 When there is greater price risk, farmers tend
11 to specialize less than they would otherwise would and
12 as a result forego the potential cost savings from
13 specialization.

14 Price and income variability also cause survival
15 problems for the most heavily leveraged farmers, who are
16 often recent entrants. This further complicates life
17 for the new entrants to farming who already have sufficient
18 obstacles in their path.

19 Farm price spurts due to sudden shifts in export
20 demand also have an impact on the prices consumers have to
21 pay for food and livestock producers have to pay for feed.
22 When validated by monetary expansion, such price rises
23 contribute to general inflation.

24 So, the greater price risk associated with our
25 larger reliance on the export market has made it

1 particularly important that our farm policy be capable
2 of smoothing out the price gyrations in the domestic market.

3 Inflation is one of the principal problems of
4 U. S. agriculture today. Land is an excellent hedge
5 against inflation and when the general price level is rising
6 as fast as it is today, this brings a new class of competitors
7 with farmers into the land market.

8 Their demand for land as a hedge against inflation
9 bids up the price even faster than it would otherwise be
10 rising. This makes it even more difficult for new entrants
11 to get into farming and causes land prices to rise well
12 above levels which can be sustained by returns in
13 agricultural production alone.

14 Medium sized farmers in particularly tend to get
15 squeezed out of agriculture. Absentee landlords, who hold
16 the land principally as a hedge against inflation, tend to
17 gain in such times.

18 While it is not clear that this tendency has pro-
19 ceeded far in the U. S. to date, experience from a number
20 of other countries which have experienced rapid inflation
21 shows that we should not be surprised to find more of this
22 soon here.

23 The larger farm exports are now extremely important
24 to our balance of payments and the strength of the dollar,
25 so it is imperative that we maintain and expand exports

1 from this sector in which we have competitive strength.

2 This means that it is important that we exploit
3 any available economies of scale to minimize unit cost of
4 production to maintain our competitive position.

5 However, the available empirical evidence suggests
6 that in agriculture, after reaching a moderate size, no
7 further unit cost gains are available from further expanding
8 the size of farms.

9 However, technological change has continually
10 increased the size of farm at which minimum unit cost is
11 reached. From any given technology, the only economic
12 argument for larger farms is if, due to narrow margins, a
13 larger number of acres are required in order to provide the
14 farmer with a net income comparable to that in the nonfarm
15 sector.

16 Finally, with respect to proposals that we
17 restrict exports of grains and/or oilseeds in order to
18 augment the price we receive in the export market, the
19 burden of evidence goes strongly against the likelihood of
20 long-run success.

21 It is likely that short run gains could be obtained
22 as long as U. S. producers were willing to cut back their
23 production. However, the higher world market prices would
24 stimulate expansion in production in higher cost countries
25 which are less well endowed with agricultural resources

1 than we are.

2 The net result would be a loss of some fraction of
3 our export markets over the longer run. The same basic
4 arguments apply in the case of a grain exporters' cartel,
5 which has been suggested by some observers, following OPEC's
6 successes. The United States would be better served over
7 the longer run by promoting freer, rather than more
8 restrictive, international agricultural trade.

9 SECRETARY BERGLAND: Thank you very much, Dr.
10 Thompson. And, now to John Wallace.

11 MR. WALLACE: Thank you. I am an egg producer
12 from St. Petersburg, Florida. My testimony is given on
13 behalf of the United Egg Producers, a national marketing
14 cooperative.

15 Today, I would like to discuss the question of the
16 broadened constituency of USDA, including consumers and
17 others, the effect of that broadening on nutrition programs
18 and, most important to me, its impact on egg producers.

19 There has been, and should be, certain expansion
20 of the USDA constituency. The general needs, safety and
21 economic well-being of the consumer must be constantly
22 considered. The consumer requires and demands an adequate,
23 economical and safe food supply.

24 Our egg industry has long worked closely with the
25 inspection service to secure the safety and quality of our

1 product. With research support, our producers have achieved
2 remarkable levels of production efficiency. The selling
3 price of few, if any other, agricultural products has
4 resisted the effects of inflation so well as poultry and
5 eggs. Through enabling legislation and with the cooperation
6 of USDA, the egg industry funds the American Egg Board,
7 spending annually \$6 million to support research, develop
8 exports and bring to consumers information regarding the
9 nutritional value, versatility and economy of eggs.

10 It is most appropriate for USDA to help interpret
11 the needs of consumers to agriculture. Certainly it is
12 desirable for USDA to aid in maintaining open communication
13 and understanding between farmers and consumers.

14 However, USDA must remember that its principal
15 constitutency, its number one responsibility, is to repre-
16 sent the farmers.

17 There is no other agency of Government specifically
18 charged to do so, whereas many parts of the Government
19 logically, have concerns for the well-being of consumers.
20 Farmers make up only four percent of the U. S. population.
21 Our political power has lessened.

22 Nevertheless, our importance to the vitality of
23 the nation is undiminished. We are the sole source of food
24 as well as much critically needed export income.

25 Farmers deserve from USDA its strong support and

1 unequivocal advocacy in Government, recognizing that
2 advocacy must always be consonant with the public interest.

3 Today we are concerned that USDA is, in some
4 respects, overlooking its constituency of farmers, specifically
5 animal protein producers, in its eagerness to serve
6 consumers.

7 I am referring particularly to the publication
8 by USDA and HEW entitled "Nutrition and Your Health:
9 Dietary Guidelines for Americans."

10 Our industry does recognize the need for dietary
11 guidance and factual nutritional information on which
12 consumers may base their food choices, but the Guidelines'
13 recommendations have gone beyond the point justifiable by
14 research. The Guidelines potential for damage to animal
15 protein producers is tremendous.

16 Guideline Number Three states: "Avoid too much
17 fat, saturated fat, and cholesterol." The text admits that:
18 "There is controversy about what recommendations are
19 appropriate for healthy Americans", yet in the next sentence
20 it states: "But for the U. S. population as a whole,
21 reduction in our current intake of total fat, saturated fat
22 and total cholesterol is sensible".

23 That, in our opinion, is not consistent with public
24 interest. Our position is supported by Dr. Philip White,
25 head of the American Medical Association Committee on Food

1 and Nutrition.

2 When the Guidelines were released, Dr. White noted
3 that they "imply that all people now eat in the same way
4 and would benefit from a reduction in fat, or sugar, or salt.
5 The whole population should not be treated as if it were at
6 risk of falling prey to diet-related diseases."

7 Although we agree with and appreciate the
8 Guidelines' statement that eggs "contain many essential
9 vitamins and minerals as well as protein", we object
10 vigorously to the recommendation to "moderate" the use of
11 eggs. It is imprecise and does not have scientific validity.

12 We feel that Recommendation Number Three should
13 be modified, given the present lack of clear consensus on
14 the diet/heart/cholesterol controversy.

15 Beyond the consumer impact of the Guidelines booklet
16 itself, we see these recommendations as forming the basis
17 for vast changes in other USDA nutrition programs, commodity
18 purchase programs and feeding programs.

19 USDA appears to be making a conscious attempt to
20 alter the structure of American agriculture by discouraging
21 consumption of certain commodities. The Dietary Guidelines
22 are being used as the vehicle for this ill-conceived policy
23 and the egg industry is already feeling the effects of their
24 implementation.

25 Citing "Administrative reasons", USDA has proposed

1 a reduction in the monthly WIC egg allotment from two and
2 one half to two dozen. This proposal is in direct conflict
3 with the stated purpose of the WIC program, which is to
4 supplement the diets of the economically disadvantaged target
5 audience by supplying recipients with foods containing spe-
6 cific nutrients.

7 With the exception of Viamin C, eggs provide all
8 the key nutrients, so clearly there can be no nutritional
9 reason for the proposed reduction.

10 I seem my time is running short here. I would
11 like to conclude by saying that we suggest that USDA's
12 officials review the stated goals of their feeding and
13 nutrition program before they continue.

14 I question whether USDA's attitude is sufficiently
15 responsive to us, and Mr. Secretary, I wonder whether your
16 Department has given consideration to the consequences of
17 its actions.

18 We feel it is premature and unjust to attempt to
19 make critical changes in the type of agricultural production
20 that has resulted in a generally healthy and well-fed
21 population.

22 Thank you very much.

23 SECRETARY BERGLAND: Thank you very much, and
24 finally now, Mr. Stroh.

25 MR. STROH: Thank you, Mr. Secretary and good morning.

1 There are a number of issues confronting agriculture
2 in the designated areas which we have been discussing today.
3 I would like to address them as President of the National
4 Trade Association for the fresh fruit and vegetable industry.
5 In order to comply with the five minute limit on prepared
6 presentation, I shall, however, severely restrict my
7 comments.

8 I would like to emphasize and reiterate that
9 agriculture today is not a thing apart; it is much more than
10 the process of producing food and fiber.

11 Agriculture must also merge productively with the
12 complex system which has been developed to market its produce.
13 Our views are focused on marketing, the key to a healthy
14 agriculture economy. Admittedly, American agricultural
15 marketing is not without flaw, but it is the most successful
16 in the history of mankind.

17 On balance, agriculture is no more nor less affected
18 by inflation than any other sector. Neither is it alone
19 in suffering cash flow problems; accordingly, it must be
20 aware of its inevitable place in the community of inflation-
21 affected sectors of our economy.

22 In order to deal with inflation, agriculture in all
23 its ramifications must be willing and able to work in
24 effective cooperation, with all other sectors in contending
25 with and eventually solving its problems. And, as agriculture

1 itself truly understands its critical interdependence
2 with other sectors, so must the government complex with which
3 it deals, beginning with the United States Department of
4 Agriculture itself.

5 To deal with inflation effectively, for example,
6 consider the transportation system serving agriculture. As
7 transportation is energy dependent, so is agriculture's
8 marketing system. A sound transportation system is absolutely
9 necessary to the delivery of the produce of agriculture.

10 The very integrity of the agricultural structure
11 itself depends on its transportation support; let there be
12 no mistake about it.

13 Conisder, too, the matter of size. Inflation in
14 agriculture or in any other sector is not related to the size
15 of a farming operation, or of its suppliers, or of any
16 other component of our structure, with the possible exception
17 of Government. But others will deal with this subject
18 more thoroughly, I am sure. Much more thoroughly.

19 The distinguishing features of American agriculture
20 are not necessarily the marvelous developments of science
21 and the hard work of its farmers in producing an ever-greater
22 abundance, astonishing as these may be, but in its delivery
23 or distribution system.

24 Consumers must understand this phenomenon of
25 American agriculture, as seen in the fresh fruit and vegetable

1 industry as only one example. As American consumers travel
2 about the world, surely they must observe the damning
3 evidence of poor or non-existent distribution systems.

4 There should be no questions about the efficiency
5 of the American system of food distribution. It is no
6 accident that we deliver more and better foods to more
7 people at meaningfully lower prices than any other major
8 nation.

9 Direct farmer to consumer marketing and its
10 effectiveness, or lack of it, is demonstrated in one after
11 another of the world's developing nations.

12 Instead of pouring more and more consumer tax
13 dollars down the drain of alleged "direct marketing" we
14 should look instead to detecting and repairing the flaws
15 in a proven distribution system. Without intelligent
16 appreciation and support, that system conceivably may not
17 survive.

18 The people of the United States now 225 millions
19 strong, feed and clothe themselves and millions of others
20 throughout the world, even in these inflationary times.

21 Our nation has a range of climate from semi-frigid
22 to semi-tropical, with agriculture production scheduled
23 accordingly. It is a nation where many of the most efficient
24 agricultural producing areas inevitably are removed by
25 thousands of miles from the most concentrated markets.

1 And, in such a nation, how can the role of the so-called
2 "direct farmer-to-consumer marketing" be accorded more than
3 the limited importance it deserves?

4 The fact is that from the equally important view-
5 points of agricultural sector cost-effectiveness on the one
6 hand, and the satisfaction of consumer wants and desires
7 on the other, the existing system of delivery of agricultural
8 produce is the most direct possible.

9 It is an unequalled assembly of talent and exper-
10 ience, a combination of human and material assets which
11 deserves a better understanding by consumers and their
12 government than has been apparent recently.

13 As one example, the fresh fruit and vegetable
14 industry continues to supply essential, nutritious foods
15 at realistic, reasonable prices, 52 week of the year.
16 It cannot be a part-time operation so why not return to
17 a reasonable, realistic level of support of on-going industry
18 market research aimed at further improving food distribution?
19 The fantastic strides in productivity in agriculture and
20 food distribution in the post-World War II years were no
21 accident.

22 Time does not permit a further exposition of other
23 consumer related issues and such topics as international
24 trade. There is no reason why USDA cannot adequately
25 represent the interests of consumers in the food and

1 agriculture system, as well as those of farmers.

2 Why should not the USDA be a center for nutrition
3 research and education, if food production and distribution
4 are its primary business?

5 With respect to international trade, let America
6 expand its agricultural exports as much as possible. On
7 balance, the net effect on American consumers can only be
8 salutary.

9 Essentially, there is nothing wrong with American
10 agriculture and its distribution system in an inflationary
11 or any other kind of economy that intelligent attention and
12 application cannot cure. Our well being as individuals
13 and as a nation depends on keeping agriculture and its dis-
14 tribution system the very best, a model for the world.

15 SECRETARY BERGLAND. Thank you very much, Mr.
16 Stroh. This segment will continue on to 10:25 or so.
17 I have about one question for each of you and I will keep
18 my questions short, and if you can keep the answers short
19 we can get through everything that J. B. Penn and I would
20 like to bring up this morning.

21 First, Dr. Johnson, what in your judgment does
22 land inflation, and conversly, land deflation -- how does
23 it impact on farm structure? What is going on out there.

24 We know what land inflation is, of course. It is
25 15 percent a year, but what is this doing?

1 DR. JOHNSON: Well, I am not really an expert on
2 what it is doing to the structure. The point I want to
3 bring out of course was, there is a part of the land infla-
4 tion that is due to forces completely outside -- that is,
5 what Feldstein has done -- everybody knows that capital
6 gains and income are treated differently by the tax laws.

7 What happens in an inflationary period is that
8 land becomes like gold, so that people will bid up the
9 price of land just as they have gold, much above the general
10 level of prices simply to take advantage of the capital
11 gains.

12 SECRETARY BERGLAND: It is a self-fulfilling
13 prophecy.

14 DR. JOHNSON: True.

15 SECRETARY BERGLAND: What if policies were changed
16 in such a way as to introduce system which would develop
17 a value more in mind with what its worth as a producer of
18 income? What effect would this have on structure?

19 In other words, knock the inflationary steam out of
20 the land business?

21 DR. JOHNSON: I am sure, if we hold inflation, then
22 prices of assets, including land, will come back into line
23 and institutions will adjust, but we will still have the
24 discrepancy between capital gains and income tax, but you
25 get the extra problem that inflation causes out of the

1 picture, and then presumably the land will -- as other
2 assets attract it.

3 SECRETARY BERGLAND: Land value will be brought
4 back more in line. If they were brought back more in line,
5 who would that hurt most?

6 DR. JOHNSON: I can't really -- I don't know who
7 it would hurt, and who it would help.

8 SECRETARY BERGLAND: You had better think about that.
9 We don't need answers today, of course. Answers will be
10 needed next year when Congress writes the laws.

11 Ms. Rosenbluth, does it matter how many farms
12 we have in the United States really?

13 Please don't misunderstand me. I am probing.
14 What does it matter whether we have 2.7 million or 200,000?

15 MS. ROSENBLUTH: I think we have seen in other
16 areas of the economy when just a few control a very essential
17 commodity, that the larger consumers have less control over
18 the prices.

19 I think if there are more farmers, that much of
20 the economics of the capitalistic system will enable more
21 competitive market systems, which is only one of the many
22 reasons.

23 I think in terms of regional distribution, which
24 right now our culture depends greatly on transportation,
25 as energy cost increase, if we just have a few farms isolated

1 in particular areas, we will have to continue to depend on
2 transporation.

3 Larger numbers of farms create a possibility for
4 regional distribution, and then we have the studies that
5 have come out from USDA, the difference in the world community
6 between when you have a few number of farms and a large
7 number of farms. That the other sources of services are
8 greatly improved to the community at large, when there
9 are an increased number of farms in the area.

10 SECRETARY BERGLAND: Mr. Hauck, in your testimony,
11 part of which you did not read, you recommended that market
12 development actitivites be focused primarily -- not primarily,
13 but be focused on developing countries, and then you cited
14 the socialist or centrally planned economies in particular.

15 We are really interested particularly in the
16 developing country economic assistance. What can we do in
17 these areas?

18 I know the Japanese and the Western Europeans are
19 going to take care of themselves. There isn't any doubt
20 about that. What about two-thirds of the world where incomes
21 are low and where potential demand is the greatest?

22 What can we do?

23 MR. HAUCK: Well, we have given a lot of thought
24 to that lately, and particularly with the cessation of trade
25 of products to the Soviet Union. We explored some options.

1 I guess that brought into focus for us that
2 countries, like, for instance, Egypt, the People's Republic
3 of China, and I have to speak parochially here, represent
4 potential markets and a lot of the energies and efforts
5 that were being expended, and continue to be expended in
6 some varying degrees in traditional stabilized markets
7 such as Japan and Western Europe, maybe those resources --
8 maybe some of those resoures could be directed in other
9 areas.

10 Now, what are the options? Well, there is P.L. 480,
11 of course, in some extreme cases which has served agriculture
12 well as well as assisting many countries of the world in
13 the past.

14 Credits, guarantees, assurances, we think the
15 American trade in industry, the export trade, will move into
16 those markets if they have reasonable assurances of support
17 from the Government.

18 If credits are made available, whatever kind,
19 there is a whole variety of different kinds of credits that
20 can be made available to developing countries.

21 SECRETARY BERGLAND: What about helping them build
22 an intrastructure? Do you think this is a thing we can do
23 more of?

24 MR. HAUCK: Intrastructure, in what sense?

25 SECRETARY BERGLAND: Within the developing country.

1 MR. HAUCK: You mean processing plants and exporting
2 soybeans, et cetera?

3 In most of those cases where those have been set
4 forth, Mr. Secretary, I think a careful analyses shows --
5 Let's just take an oilseed complex, a processing plant.
6 There may be a great demand for the oil there, but the
7 infrastructure is missing for economics, or whatever reason.
8 Traditional taste, culture, foods that have been used
9 without a viable industry.

10 It is like hauling coal back and forth across the
11 ocean, and economically it is just not -- there are just
12 not economically viable alternatives.

13 Those have been suggested before. Most of the
14 developing countries, the shortage today is in oil and the
15 new vegetable proteins derived from soybeans as well as
16 other vegetable proteins. That is probably of more interest
17 to many of the developing countries -- the soybean meal
18 market.

19 SECRETARY BERGLAND: I have some more questions.
20 If we have time I will be coming back to you.

21 Mr. Thompson. On the last line I am reading of
22 your testimony you say: The United States would be better
23 served over the longer haul by promoting freer, rather
24 than restrictive, international agricultural trade".

25 It is generally believed that the food requirements

1 in the world will probably double in the next 40 to 50 years.
2 There is no way that the United States is going to
3 satisfy more than a fraction of that increased demand. Most
4 of the increase will probably have to come in the developing
5 countries in production of indigenous crops.

6 What does freer trade mean for them? What does it
7 mean for the world's food requirements in the longer run?

8 DR. THOMPSON. Okay. For the developing countries,
9 first, freer trade means to export -- continuing on with
10 Mr. Hauck's comments before -- I think that developing
11 countries can be an extremely important potential market
12 for certain products in which we have an advantage, but the
13 only way they are going to have the wherewithall to pay
14 for that is to export something in order to have the where-
15 withall to buy it.

16 Okay, so freer trade means for them the ability to
17 export some of the products in which they do have a compara-
18 tive advantage, but -- and that helps our exports at the
19 same time.

20 With respect -- I lost the chain of thought on the
21 rest of your question.

22 SECRETARY BERGLAND: Well, I am trying to figure
23 out what freer trade means in terms of meeting global food
24 requirements. The United States is not going to satisfy that
25 demand entirely, we can do that only in part.

1 DR. THOMPSON: Clearly --

2 SECRETARY BERGLAND: Some will argue that freer
3 trade inhibits and stifles expansion and investment in some
4 countries, and it is a tunnel vision.

5 DR. THOMPSON: It is nice to have protection if
6 you want to expand an industry. The biggest reason I have
7 argued that freer trade can benefit the whole world trading
8 system is that if you only have a small fraction of the
9 trading countries in the world, we find out that those few
10 countries such as the United States, which have an open
11 trading economy end up doing all the adjusting for the
12 whole world. So, it is in this sense that I feel we, in
13 the United States, have a tremendous vested interest in
14 trade, because there is more to share and we won't be on
15 the whip-end with these price adjustments.

16 Coming back to the role of freer trade in terms of
17 helping to solve the world's -- or helping feed the world,
18 sure we can't meet more than a fraction of the demand, but
19 it does permit when there are crop failures in different
20 parts of the world -- and we know certain parts of the world
21 have greater weather risks than we do, and they are going
22 to have crop failures occasionally -- there is a capacity
23 for the full world trading system to share in the adjustments
24 in response to those crop failures.

25 It does permit those countries which have the

1 capacity to increase exports, such as the United States,
2 to meet some of the demand. No country is going to be --
3 permit total reliance on imports to feed their population.
4 Policy makers all around the world, they like their jobs
5 too well to be put into the position for the country's
6 future to be jeopardized by potential cartel being exploited.

7 They worry about they might be exploited by the
8 few food exporters in the future. I think freer trade
9 with less price -- would eliminate some of their fears.

10 SECRETARY BERGLAND: Mr. Wallace, one of my
11 frustrations in this job, while I was in Congress, was a
12 belief that public policymaking in agriculture was largely
13 a reactive process.

14 A problem would develop and the tendency was to
15 put on a patch, and this sort of characterized agricultural
16 policymaking for as long back as we can remember.

17 We believe that is simply not good enough for
18 Government. We need to try to get ahead of the process
19 for a change.

20 We do have a market economy which we think works
21 exceedingly well, and it is our belief that consumers and
22 producers need to understand each other. Producers need
23 to know what is going to happen on the consumer side, and
24 can adjust accordingly.

25 The Government's role then is to sort of serve as

1 a referee and find out what the truth is, if we can.

2 That means we need, in many cases, a better scientific
3 base upon which to base policy. That is the essence of your
4 argument, I think. Mainly, that we have made pronouncements
5 without having good scientific information.

6 I think that unfortunately has been true for as
7 long as I can remember. We intend to build a food policy
8 on the basis of nutritional needs and requirements and
9 build a farm program to accomodate this dynamic world, and
10 that is, of course, easier said than done, because we have
11 to change basic values.

12 Question. How do you think we should go about
13 getting the so-called truth about the linkage between our
14 diet and our health and our attitude? We know that there
15 is a correlation. What do we do, and how do we handle it?

16 MR. WALLACE: I guess I would like to see USDA
17 in its nutrition and dietary recommendation programs, make
18 rather broad general recommendations, such as the first
19 two in Nutrition and Your Health, the dietary guidelines
20 booklet.

21 Eat a variety of foods, maintain ideal weights, and
22 then leave to the consumers the freedom of choice, to their
23 own food selection, and if they make their choices and
24 the demand is there, I am sure we as producers will be
25 responsive to the consumer demands.

1 SECRETARY BERGLAND: What about those 50 million
2 or so consumers in the United States who cannot afford a
3 doctor's examination?

4 I am on a diet, for example, a carefully controlled
5 diet, and there are about 50 million people in the country
6 that don't have my income. They don't have enough income
7 to afford a doctor's examination.

8 Do we have any obligation to them?

9 MR. WALLACE: I think certainly general recommenda-
10 tions for good nutrition are an obligation to them, but
11 nevertheless it may be dangerous without knowing their
12 particular health condition to make specific recommendations.

13 SECRETARY BERGLAND: I happen to think a diet
14 ought to be tailor-made to ones rate of metabolism, and
15 general physical and emotional well-being.

16 But, that is an idealistic value. In the real
17 world there are just too many who can't afford this, and
18 we are trying to figure out how to deal with that side of
19 the economy too.

20 Well, we will have to move on to Mr. Stroh. I happen
21 to believe that your general assessment of the marketing
22 structure in the United States is a correct one.

23 I too have traveled the world over, and we tend
24 to take a lot of things for granted. What effect do you
25 think the rising cost of energy is going to have on the

1 structure?

2 MR. STROH: Well, Mr. Secretary, there is not ques-
3 tion that the rising cost of energy is going to have a
4 tremendous effect, and just where it shows up specifically
5 I think is a problem that we are all concerned about.

6 Does it show up as a direct pass-through to the
7 consumers' dinnertable? Is some of that dumped off in the
8 various steps along the way?

9 I think that is a tremendous problem, but I think
10 there are ways of solving some of these problems, and one
11 of the areas that our association has just undertaken, and
12 has been working on in a low-key fashion for a number of
13 years, is unitization and productivity.

14 Truly, in our industry, our perishables are shipped
15 in over 500 cartons of one kind of another. We are attempting
16 to reduce that to some economical numbers. We are using
17 a fomula of a magic six.

18 In other words, six cartons that we can begin
19 testing with. We have begun this testing program within the
20 association, and hopefully we can look to the U. S. Depart-
21 ment of Agriculture for some support in that kind of a
22 project, because that is a realistic thought that will
23 reduce the use of energy within and without our industry,
24 and will, I think, reflect ultimately some direct cost
25 savings to the nation's dinner table.

1 So, that is the kind of a project that I think we
2 can take on, from our point of view, and hopefully seek
3 the assistance of the Department too.

4 SECRETARY BERGLAND: Do you think California
5 vegetable producers will be competitive on the East Coast?
6 Do you think they can remain competitive in the East Coast
7 market, or are we likely to see rising production of
8 vegetables on the East Coast to satisfy the demand?

9 MR. STROH: Well, I think the crystal ball, of
10 course, is a difficult thing to gauge at any time. I think,
11 as I mentioned in our testimony here this morning, the
12 United States is affected by semi-tropical to semi-blizzard
13 climatic conditions, and certainly there is a strong case
14 for a competitive California market.

15 Our Florida markets will continue to play an
16 important role, but you know, the buyer, the buyer of fresh
17 produce in Amherst, Massachusetts can't grow his commodity,
18 can't grow commodities up there 12 months a year.

19 In California, our commodities can be grown 12
20 months a year, and on that basis, certainly they are going
21 to continue to be competitive in California.

22 SECRETARY BERGLAND: What about the three months
23 a year that they can grow produce in Amerst, Mass? Is that
24 likely to come to life?

25 MR. STROH: I think it does. I think it plays an

1 important role now in our marketing system.

2 The California producer, the Florida producer,
3 recognizes this, and the free market economy reflects that.
4 Fresh fruits and vegetables, I think this is one of the
5 things that our industry sometimes get maligned, we will come
6 along to the scarce times of the year, and the public press
7 reports the high price of fresh fruits and vegetables, but
8 darn it, they don't report the extremely low prices when
9 we hit June, July and August.

10 So, yes, there is a place for both sides, for the
11 Amherst farmer as well as the California, Florida and Texas
12 and all other areas of agriculture production.

13 SECRETARY BERGLAND: Thank you very much.

14 Mr. Penn?

15 MR. PENN: I have a few questions. The first is
16 for Paul Johnson.

17 Paul, I understand from your paper that you are
18 saying the only way to control inflation, since it is out-
19 side the traditional monetary policy -- and then the main
20 impact of inflation is on agriculture and on the structure
21 of agriculture, is as that inflation gets reflected in land
22 values, the main way to influence of the structural impacts
23 of inflation is through tax policies.

24 That is also outside the realm of agriculture; is
25 that in essence what you are saying?

1 DR. JOHNSON: That is, in essence, what I am saying.
2 It is not just land prices. I think that inflation probably
3 does have impact on their real prices. I don't think it is
4 very large, and surely, other things impact on inflation,
5 but ultimately inflation is monetary and tax policy, monetary
6 policy are outside the Ag sector and Ag legislation simply
7 has little to say in the adjustment.

8 Don't minimize the adjustment problem, it is severe,
9 but it is outside the control of the Ag sector, I think.

10 MR. PENN: Ms. Rosenbluth, you mentioned in your
11 statement -- the part you didn't get to read, you had a bit
12 more detail on the Family Farm Development Act.

13 I have actually had a look at that. What I am
14 wondering is, what would the Family Farm Development Act
15 do to alter the forces that are now causing farm structure
16 to develop in the way it is developing? What would it do
17 to change the situation that now exists?

18 MS. ROSENBLUTH: It would do a number of things.
19 It would reorient much of the research that goes on now
20 in the land grant college system and in the educational
21 programs, to also look at small and moderate family farms
22 and to look at appropriate technology and environmentally
23 sound forms of agriculture.

24 It would offer revolving loans to communities, so
25 that new farmers would be able to help receive access to

1 farmland. It would make credit available to farmers,
2 particularly for such areas where they have a quite allot
3 of difficulty in obtaining, in converting, to organic
4 agriculture in appropriate technology.

5 It would create marketing programs, particularly
6 direct marketing programs, which, I think, would help that
7 Amherst farmer tremendously that you were talking about
8 before.

9 It would expand the authority of some of the other
10 present marketing programs, and would provide legal services.

11 I mentioned also, in order to take advantage of
12 many of the laws farmers need to at times be kept more
13 informed. There are farm operation problems and ownership
14 problems where legal services are often required.

15 It would also set up a new price review board.
16 One of the areas I didn't mention, which I wanted to, is
17 to say, absolutely see the importance of Federal policies
18 in set-in price policies, and at this moment our Coalition
19 is conducting our own dialogue.

20 We are interviewing our members, and we are working
21 through our system of local organizers to bring farmers and
22 consumers together to understand the importance of
23 agricultural policies, and how it impacts upon not just the
24 farmer.

25 MR. PENN: Do you think, even with all of these things

1 you have mentioned that that would be enough to offset the
2 forces that are already operating, that cause land prices
3 to increase, that cause farms to grow in size?

4 MS. ROSENBLUTH: I think it would make a tremendous
5 difference in at least removing the bias of our present
6 laws today.

7 One section I did not mention which I just realized
8 is the tax section. Whether we can consider it agricultural
9 law, or a law that impacts agricultural policies, the changes
10 in terms of our system of accounting, in terms of capital
11 gains, would make a tremendous impact upon the structure
12 of agriculture and I don't think there is any one answer
13 per se, but I think the Family Farm Development Act would
14 definitely eliminate the present-day bias and put us on the
15 right road.

16 MR. PENN: Okay, thank you.

17 I want to ask Bob Thompson a question. I see a
18 dilemma here in terms of structure, and how you affect it.
19 You indicated in the paper, that instability, instability in
20 the markets that comes about from foreign sources, whatever,
21 causes greater diversity in farms, causes greater diversity
22 of enterprises on individual farms, and also probably slows
23 our -- or causes farms not to grow as large, removes some
24 of the incentives.

25 Then, at the same time, one of the objectives of

1 policy is to stabilize those markets, to try to make the
2 domestic markets as stable from those forces if possible.

3 Yet, it is this stability that we have had over
4 several decades that has been one of the main reasons for
5 the kind of structure we have for growth in farms, for the
6 expansion, especially for specialization.

7 Do you see a real dilemma there to the extent that
8 policy is assessable in stabilizing; is that not going to
9 perpetuate the structure?

10 DR. THOMPSON: I think what you say is right. If
11 things continue the way they are, if we have large exports,
12 I think if there is a real interest in controlling the
13 growth of farms or reducing the rate of growth of farm size,
14 it is going to take other changes such as in taxation policy,
15 and so on, to remove some of the other stimuli, and certainly
16 the stability and the increasing incomes from exports will
17 contribute.

18 MR. PENN: So the message there is, if you want to
19 achieve several objectives at once, that you have to look
20 at all of these things in concert.

21 I mean, you have to look at tax policy, stabilization
22 policies and all of those things at once?

23 DR. THOMPSON: That's right, because each of those
24 things are impinging on the agricultural structure.

25 SECRETARY BERGLAND: Will the gentleman yield?

1 Dr. Thompson, if producing food and maintaining
2 continuous supply at high quality at a reasonable price is
3 the goal of agricultural policymaking in the United States,
4 what difference does it make whether we have a tend toward
5 large scale farming or we do not?

6 It is generally acknowledged that subsidies tend
7 to flow to the biggest farms the most, and to the small
8 farms not at all. So, our policy, although unwritten and
9 unspoken, admittedly contributes substantially toward this
10 trend.

11 Do you think that is unsound?

12 DR. THOMPSON: I think one has to make the
13 decision after one reaches the minimum unit cost on value,
14 on a system of values, whether or not we value a large
15 farm, a large number of people having the opportunity to
16 continue to farm.

17 As an economist, I don't think I have any advantage
18 to saying whether it is good or bad. I can only say that
19 it is good to encourage growth from the economic standpoint.

20 You want to encourage growth in size up to the
21 minimum unit cost. After that there is no additional
22 justification.

23 MR. PENN: I have one final question for Mr.
24 Wallace. Something that wasn't mentioned in your statement.
25 From time to time we hear concerns about the markets

1 for eggs, about the pricing of eggs, and those concerns
2 generally relate to the fact that a very small quantity
3 of eggs are traded in the traditional, open, competitive
4 market and the price is somehow set other than that.

5 I was just wondering if you had any concerns
6 about that as a producer. Concerns related to structure
7 that might relate to access to markets by individual pro-
8 ducers or the kind of marketing system that now exists might
9 favor one producer over another? Do you have any concerns?

10 MR. WALLACE: I do have a lot of concern about the
11 price discovery system, which then results in pricing of
12 eggs to the ultimate market.

13 I don't think that it favors one size of producer
14 over another, but I do have concern about the system.

15 We do have a trading organization called "Egg
16 Clearing House, Incorporated", which although it doesn't
17 trade as much volume as we would like to see it trade, does
18 trade a percentage of the free volume of eggs, and I guess
19 our real concern is, that the results of that trading on
20 Egg Clearing House is not adequately, clearly and consistently
21 reflected in the market price report on which most all
22 producers depend for their relationship, price relationship,
23 in selling their eggs to some markets.

24 So, we have the system, but it is not working
25 right.

1 MR. PENN: What might one do to improve the
2 efficiency?

3 MR. WALLACE: We are hopeful that we can find a
4 way to encourage the traditional market reporter to take
5 more recognition of the actual trading that is taking place
6 every day on Egg Clearing House.

7 MR. PENN: Are those USDA price reporters?

8 MR. WALLACE: No, this is a private reporter that
9 has been in business for over a hundred years, and like
10 it or not we are bound by tradition pretty much to use that
11 price quotation.

12 MR. PENN: Thank you.

13 SECRETARY BERGLAND: Thank you very much. I want
14 to thank the entire panel for taking the time to come, and
15 for preparing for this very important enterprise. I
16 appreciate it.

17 Our next panel will address the question of
18 Capital, Credit and Debt in Farming. The panel is made up
19 of Mr. Marlin D. Jackson from the American Bankers
20 Association.

21 Dr. Peter Barry from the University of Illinois.

22 Mr. Donald Wilkinson, Governor of the Farm Credit
23 Administration.

24 Mr. Tom Olson, representing the Independent
25 Bankers Association; and

1 Mr. Merlyn Carlson, President of the National
2 Cattlemen's Association.

3 We very much appreciate your coming today,
4 gentlemen. The ground rules are simple. We have timekeepers
5 down here asking each person, if they can, to confine their
6 oral remarks to five minutes. All printed testimony will
7 appear in the record as submitted.

8 Mr. Jackson.

9 MR. JACKSON: Mr. Secretary, distinguished guests
10 and fellow panelists, it is indeed an honor for me, Marlin
11 Jackson, from the rural community of Paragould, Arkansas
12 to represent the American Bankers Association.

13 The American Bankers Association is comprised
14 of 13,100 commercial banks in America. That represent 90
15 percent of 14,000 commercial banks. Seventy-three percent
16 of these banks are banks of \$25 million or less. Fifty-
17 five percent of the banks are located in communities of
18 5,000 or less.

19 Consequently, I speak from the standpoint of an
20 agricultural banker of rural background and as a farm
21 citizen from one of the most rural states in America.

22 I welcome the opportunity to represent the ABA.
23 I speak to address the broad area of Capital, Credit,
24 Debt and the Government's role in these issues.

25 We believe that the outlook for agriculture through

1 1980 is favorable, although subject to many uncertainties.
2 We see a strong overall financial equity position, but
3 we have grave concerns about the cash flow and the liquidity
4 condition of many farmers.

5 We see the need for numerous innovative ideas in
6 the 80's to meet the capital and credit needs for farmers.
7 The banking system desires, and dedicates itself, and fully
8 expects to participate in the growth and reshaping of such
9 an important industry.

10 We believe that by appropriate focus today on
11 inflation, on the role of the Government and on competitive
12 equality as it relates to the flow of funds to agriculture
13 that a desired structure of American agriculture, that is
14 in the best public interest, is quite achievable.

15 This can best be accomplished by getting on with
16 the job. Let us not become stalled or hung up on things
17 such as the definition of the "family farm". A precise
18 explanation is not available, nor is it is important, nor
19 is it important as long as public farm policy focuses on
20 efficiency which has, and we believe will continue to be
21 centered around the family unit.

22 The definition of a family farm is as elusive as
23 the definition of a community bank. Although we do not have
24 a precise guideline, we are confident that the community
25 banks are going to continue to be the mainstay in our

1 industry as long as we do not deny community banks an
2 opportunity to serve their community and make a reasonable
3 profit.

4 We encourage you, Mr. Secretary, to chart a broad,
5 long-range blueprint for agriculture. Further, we urge
6 you to establish a system for testing each policy against
7 three major goals.

8 One, cost benefit; two, competitive; and three,
9 the inflationary impact.

10 Mr. Secretary, coming from a rural community,
11 I contend, sir, that the farmers of America believe in
12 America. They believe in their Government; they believe
13 in their ability to produce efficiently and profitably,
14 but we, sir, are frightened.

15 We are frightened as we have never been frightened
16 since the Great Depression and since World War II. We
17 are not frightened of Iran or of Afghanistan. We are
18 frightened over the Government's apparent inability to
19 come to grips with the cancerous effects of inflation.

20 We are frightened that it took eight to ten years
21 to develop an energy policy, if, in fact, an energy policy
22 has been developed. We are frightened that under the guise
23 of providing funds for agriculture, that this Administration
24 will shepherd a Bill through the Congress called the Farm
25 Credit Administration Bill that will swing the pendulum

1 decisively in favor of the cooperative farm credit system.

2 The American Bankers, as purchasers of 40 percent
3 of the outstanding bonded indebtedness have joined as part-
4 ners with many of the entities of the farm credit system,
5 are the strongest supporters of those facets of this
6 legislation that will provide more money to the American
7 farmer and rancher, but we are adamantly opposed to those
8 provision of the Bill that continue and perpetuate the
9 inherent inequities that exist between the private sector
10 and the quasi-Governmental sector as it exists today.

11 Thank you, sir. I will be happy to respond to any
12 questions to your or your associates may have.

13 SECRETARY BERGLAND: Thank you, Mr. Jackson.

14 Now, Dr. Barry.

15 DR. BARRY: You will see, Mr. Secretary, my responses
16 are in four parts in the paper, the last of which I will
17 briefly summarize now.

18 I will start with some current issues in farm
19 credit markets may influence structural policy.

20 Some concerns have surfaced about the greater
21 instability in farm credit markets, especially for nonreal
22 estate debt, instability in farm credit markets, competitive
23 balance and future credit availability.

24 These concerns reflect pronounced shifts in market
25 shares for nonreal estate debt.

1 During the recent rapid growth of farm debt,
2 especially notable are the declines in market shares and
3 the combined Farmer's Home CCC share of nearly 22 percent,
4 government's highest share since 1959.

5 One reason for these shifts is credit availability
6 in world banks, especially in states and regions. It is
7 not known whether these stresses on farm credit markets
8 have favored the larger farm borrower, or is it clear how
9 recent changes in interest rate control laws will help
10 farmers gain access to funds.

11 The importance of farm credit systems, its high
12 performance features are well known. It does have a dominant
13 effect on farm credit markets. Its effect on national finance
14 markets are not well understood, but they are growing in
15 importance and may come in for closer scrutiny as effectiveness
16 of monetary policy and credit controls on various types of
17 lenders are considered.

18 Now, financing larger highly leveraged operations.
19 How much leverage and how much Government?

20 These issues are complex. They involve questions
21 about farms size and growth capacity, sources of risk,
22 attitudes about risk, inflation interest rates and credit
23 programs.

24 One view is that larger farms may benefit from
25 Government's more active role as a risk bearer through

1 bidding advantages for land, greater financial capacity
2 for growth, and greater debt servicing capacity.

3 Another view is that the larger, expanding, more
4 highly leveraged operations, with less reliance on nonfarm
5 income become the most vulnerable to risks, and eventually
6 need public assistance.

7 Still another view is that public policies which
8 cause real growth in farmers' income make more of their
9 return occur as far as capital gains relative to current
10 income, especially when policy benefits are bid into land
11 values. Farmers' current liquidity declines due to low
12 current returns and cash flow difficulties.

13 Finally, any relationship between the amount of
14 debt a farmer has and the level of risk assumed by the
15 Government should try to account for the amount of risk
16 involved and the farmer's willingness to bear risks.

17 Generally farmers with more debt are less risk
18 adverse, so that optimal leverage varies with farmers'
19 risk attitudes.

20 So, it is better based on credit worthiness than on
21 administered limits.

22 There is also evidence that farmers will respond to
23 reduced business risk by assuming higher financial risk and
24 will respond to reduced financial risk by assuming higher
25 business risks; these farmer responses offset risk-reducing

1 effects of Government programs and hamper both financial
2 analysis and attainment of policy targets.

3 High inflation and high financial risk call for
4 consideration of new farm lending practices.

5 Numerous ideas have been studied and suggested for
6 improved financial control by lenders and farm borrowers.
7 Examples include variable amortization, partial amortization,
8 graduated payments, inflation-indexed payments, debt reserves
9 and loan insurance. These are not yet in the mainstream
10 of financial programs available to borrowers. Moreover,
11 their demands on farmers' financial management and lenders'
12 financial analysis are high.

13 Entry into farming. Financing methods and
14 Government involvement.

15 Evidence on actual entry methods is very limited, but
16 entry, indeed, is occurring.

17 Entry intially with managerial and labor respon-
18 sibility, and sometimes off-farm employment, and later
19 accumulation of financial interest appears to be increasing.
20 Government policies that reduce lending risks indeed are
21 important means of building credit worthiness for starting
22 farmers, but depending on policy specifications may also
23 benefit larger, established operations.

24 My own inclination is for Government not to become
25 more involved in helping new farmers enter agriculture; rather

1 credit stabilizing needs cited earlir should help enable
2 farmers to compete effectively for financial resources.

3 If Government does become more involved then careful
4 consideration should be given to how entry policies relate
5 to structural targets, rates of exit from farming, release
6 qualifications from entry assistance, and to the kind of entry
7 function, managerial, labor, owner, lessor, equity supplier.

8 Finally, the issue of entry into farming may be the
9 place where reconsideration of sources of outside equity
10 capital for the farm sector warrants renewed consideration.

11 Most, 84 percent, of farm capital is financed with
12 equity capital supplied mostly be farm operators and land-
13 lords. Renewed efforts to channel outside equity capital into
14 agriculture may have beneficial liquidity effects, ease
15 entry of new managerial resources, and broaden the risk
16 bearing vase of equity capital suppliers.

17 Thank you very much.

18 SECRETARY BERGLAND: Thank you much. Now Don
19 Wilkinson.

20 MR. WILKINSON: Thank you, Mr. Secretary.

21 Agricultural policies for 1980's must be designed
22 to contend with two powerful forces which could have a dra-
23 matic effect on the structure of agriculture.

24 They are the energy price increase and sustained
25 inflation. Such policies, as far as we as lenders are

1 concerned, must also recognize that we are dealing in an
2 era of great volatility in farm earnings. Government
3 policies are needed, therefore, to level out some of this
4 volatility.

5 A question we must ask is, how much risk should
6 Government assume?

7 It clearly has a role for major disasters, both
8 natural and economic. It has a definite role where there are
9 major policy actions taken for nonfarm reasons.

10 Mr. Secretary, to some extent we are concerned with
11 the increased protection which these Government programs
12 simply induce, by making farmers have greater use of
13 financial leverage. Farmers and ranchers should be allowed
14 to succeed or to fail within the protection of clearly
15 defined Government policies.

16 Incentives for efficiency at the farm level must
17 be maintained. Government policies must not correct, must
18 not bail out individual errors but deal only with major
19 disasters, which I have mentioned.

20 Secondly, Mr. Secretary, we raise the question as
21 to whether separation of land ownership from land operation,
22 from farm operation is inevitable.

23 The large and increasing share of capital gains
24 in total farm earnings suggest to us that this may be
25 coming. Until there are some answers we truly believe that

1 Government priorities should bear hard on, number one,
2 controlling inflation, and number two, insulating payment
3 benefits from being capitalized into land values.

4 In addition, Mr. Secretary, we would raise a
5 serious question as to who should have the opportunity to
6 farm?

7 There will be realtively few entry opportunities.
8 Government assistance programs must, therefore, balance
9 intergenerational succession and new entry, farm estate
10 planning and et cetera, with the opportunity for new entry.

11 Thirdly, as we look at credit and the structure,
12 credit is very important in facilitating changes in structure
13 caused by more basic forces, which I mentioned earlier,
14 as they impact on the farm, but credit insitutions are
15 not the appropriate vehicle for changing the structure
16 of agriculture.

17 A credit institution should not impose its judgment
18 on that of a borrower as he attempts to adapt to such
19 forces, except when the safety of the loan is involved.

20 Entrepreneurship includes the right to succeed or
21 the right to fail, and sound credit may exist in an unsound
22 business decision made by that borrower.

23 As we look, Mr. Secretary, at Government credit
24 programs, and I would emphasize the Farmers Home Administra-
25 tion's program, these need to be designed, to be administered,

1 to be understood, and to be accepted as temporary devices
2 for any individual borrower.

3 They should provide entry opportunities for higher
4 risk individuals. They should provide temporary bridges
5 across the uncontrollable, natural and economic disasters.

6 They should provide size standards, both minimums
7 and maximums. They should urge incentives to graduate
8 from the program, and they should have limits on the --
9 limits possibly on the number of times an individual may
10 use such a program.

11 I refer to the Veterans Administration Loan Program.
12 Guaranteed programs should also avoid counterproductive
13 incentives to commercial lenders, such as ourselves.

14 I mean, they should not be the dumping ground for
15 our weak loans.

16 Fiscal restraints in Government suggest that there
17 will be more limitations on the authorizations and the
18 guarantees under the Government programs.

19 It is important then that priority be granted to the
20 beginning and to the lower income farmer with the insurance
21 and commodity programs being the appropriate effort to serve
22 the farmer.

23 Finally, the primary credit system for agriculture
24 in whatever structure exists must be a healthy, productive
25 banking industry and a healthy farm credit system.

1 Thank you, Mr. Secretary.

2 SECRETARY BERGLAND: Thank you very much, Mr.
3 Wilkinson. And, now to Tom Olson.

4 MR. OLSON: Thank you, Mr. Secretary. I also
5 welcome this opportunity to represent the Independent Bankers
6 Association of America to discuss farm credit.

7 This hearing comes at a time when the farm economy
8 of this country is on the threshold of what many consider to
9 be comparable to the Depression of the late 20's.

10 IBAA is comprised of nearly 7400 small and medium
11 sized community-owned banks. More than 80 percent of our
12 membership have assets under \$25 million. Most of our
13 members are located in the Midwest and South.

14 Consequently, they are heavily involved in rural
15 development and agricultural programs.

16 It is interesting to note that banks with
17 assets of \$25 million or less supply over half of the credit
18 extended to agriculture by all of the nation's commercial
19 banks.

20 In addition our member banks supply a substantial
21 part of the credit for rural housing, small business develop-
22 ment and consumer loans. By supplying a major share of bank
23 credit to our rural communities, our member banks are making
24 a considerably larger contribution to the nation's economic
25 well-being than one might assume from their size characteristics

1 alone.

2 Commodity prices on corn, wheat, hogs and cattle are
3 all below production costs. The impact of the limitation
4 of grain sales to the Soviet Union has certainly taken its
5 toll. Raw food prices received by farmers fell five percent
6 in the year ending in March.

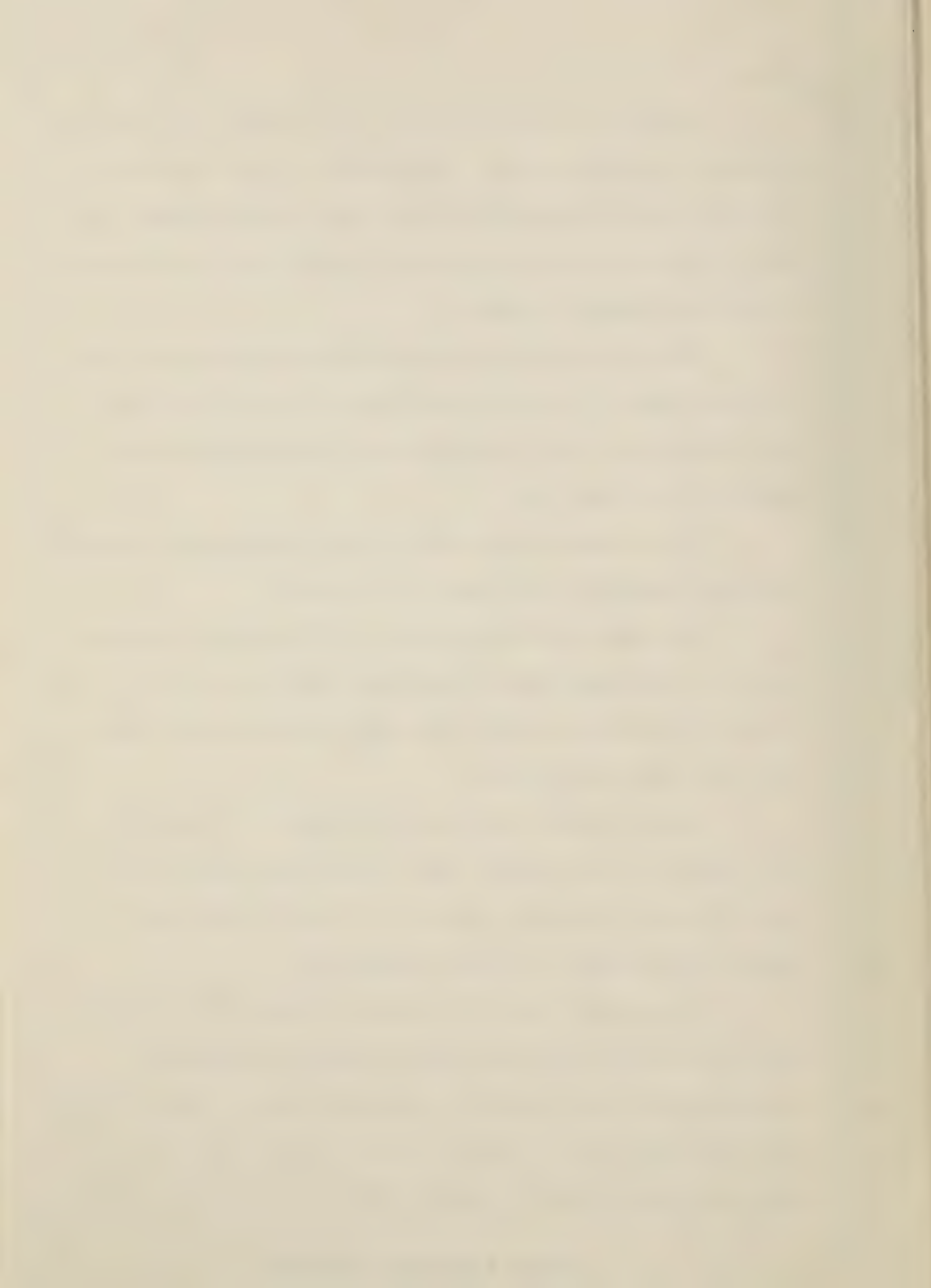
7 As the farmers in the Midwest are approaching the
8 planting season, the production costs of fuel, fertilizer,
9 seed, electricity for irrigation and farm supplies have
10 reached an all-time high.

11 This comes on the heels of the previous year ending
12 in March when farm costs were up 12 percent.

13 Interest rates peaked out at 20 percent, and even
14 though we have experienced some minor decline in rates,
15 I know of few farm or ranch operators borrowing such high
16 cost funds who can survive.

17 Even if rates decline, the farmers and ranchers
18 will receive little relief soon, as inventory cycles vary
19 from 12 months for grain farmers to 18 months for most
20 operations involved in cattle production.

21 We applaud the Fed's recent actions clarifying the
22 credit restraint guidelines and extending the seasonal
23 borrowing privilege to small, nonmember banks. Time, however,
24 is a critical factor in agricultural lending, and the Fed's
25 delay is making clear to bankers that they may exceed the



1 six to nine percent limit if portfolios contain only
2 agricultural and small business loans probably has been
3 costly.

4 Discount window access for an increased number of
5 banks is another well intentioned action, the impact of which
6 may be smaller than hoped for.

7 In an article contained in the Fall, 1979 issue of
8 the Minneapolis Federal Reserve Bank's Quarterly Review,
9 Fed economist Stanley Graham notes that nationally, annual
10 participation in the first five years the seasonal borrowing
11 privilege was in effect never exceeded 18 percent of
12 eligible member banks.

13 In 19748, for example, annual average borrowing
14 totaled \$121 million, only 17 percent of the funds available.
15 Nonmember banks' participation rate in the newly announced
16 "temporary seasonal credit program" can be expected to fall
17 below these already low levels.

18 I would like to address myself to what effect the
19 economic strains facing agriculture have had on the ability
20 to serve the credit needs of agriculture as well as measures
21 taken to most effectively assist our customers.

22 The slump in commodity prices brought on in part
23 by the grain embargo has reduced sales by farmers who, in
24 turn, have elected to store the grain.

25 As a result, higher carry-over of operating loans

1 has further decreased lendable funds.

2 Most banks are not accepting new lines of credit,
3 regardless of creditworthiness of the potential borrower.
4 Banks with smaller lending limits have been forced to rely
5 more heavily on the correspondent banks for participation
6 at normally higher rates.

7 With reference to established customers, the credit
8 restraint program, coupled with tight money, has prevented
9 lending for capital expansion, assumption of outstanding
10 debt or diversification of operations.

11 Many farm borrowers have been encouraged, if not
12 forced, to seek long-term financing by mortgaging their land
13 or refinancing their land.

14 Sources for such loans have been restricted to the
15 Federal Land Bank in our area as most life insurance companies
16 are not making such funds available and Farmers Home Adminis-
17 tration does not have available funds for farm ownership
18 loans.

19 The Production Credit Associations have been quite
20 aggressive in nature, and this has resulted in assistance,
21 in some cases, but oftentimes in criticism by bankers.

22 Some banks have elected to participate with PCAs
23 on loans originated in their bank. In some cases, marginal
24 loan customers have been directed to seek PCA financing,
25 although many excellent bank customers have also sought PCA

1 financing because of the substantially lower interest rates
2 being offered. PCAs maintain their rate advantage because
3 of their tax exempt status as well as other factors.

4 Most alarming is the serious deterioration of the net
5 worth of our farm and ranch customers in recent months.
6 We are requiring well organized cash flow statements as
7 well as quarterly updates of inventories.

8 Mr. Secretary, if the farmers and ranchers are to
9 survive and meet their credit obligations, high crop and
10 product prices are the only answer.

11 In the interim, action must be taken to make it
12 possible to serve the credit needs of agriculture at rates
13 that the farmer can live with.

14 Thank you.

15 SECRETARY BERGLAND: Thank you very much, Mr. Olsen,
16 and now Mr. Carlson.

17 MR. CARLSON: Thank you, Mr. Secretary, Mr. Hjort,
18 I appreciate the opportunity to appear before you today.
19 I would like to suggest that agriculture, and particularly
20 the livestock industry is in the worst financial condition
21 in our memories.

22 Agriculture is changing a great deal and will
23 change a great deal in the 80's. I would like to suggest,
24 historically, that agriculture has been able to cope with
25 inflation either by borrowing more money or becoming more

1 efficient, and that is why we are here today, to discuss
2 these areas.

3 Also, I would suggest in the President's March 14th
4 credit tightening speech, I think we now understand the
5 rippling down effect, of how it has effected agriculture.

6 It is obvious that he is looking to the private
7 sector to curtain inflation, and inflation causing regula-
8 tory and fiscal policies seem to be going unchecked, which
9 is a severe concern of all of agriculture and it has placed
10 agriculture in a bleak, short-term outlook particularly
11 because of seasonal needs at this time.

12 We recognize that these short-term concerns are
13 not the intent of this hearing today on the structure of
14 agriculture, but these concerns will be a part of agricult-
15 ure for the next few years, and that is what I would like
16 to address.

17 What is happening here? Historically agriculture
18 has been able to borrow at a lesser rate than has other
19 non-agricultural needs. As an example, about a year ago
20 agriculture was able to get ten percent money, and then
21 with the 18 percent now, that is an 80 percent increase
22 in the non-agriculture world. A little higher at 12 percent,
23 and then going to the 18, that is a 50 percent increase.

24 So, we have an adjustment factor built into our costs.

25 It is historic to understand, as interest goes up

1 assets go down and this is a problem to agriculture and
2 real estate values.

3 Agriculture is low on the preference list to the
4 commercial banking industry because of the uncertainties
5 that we have been talking about. Now, I think we need to
6 be aware of what is happening in agriculture with the recent
7 new banking laws. It is unlikely that long-term, fixed
8 rate loans will be as available as they have in the past.

9 Lifting of restrictions on interest rates to savers
10 will raise the cost of money, and possibly more control by
11 the Federal Reserve on the commercial bank system.

12 So, therefore, I think we need to understand that
13 we are going to have a higher cost of money into the future,
14 into agriculture, and we are going to have the absence of
15 fixed rate, long-term loans that we have historically had
16 before and we need to face the fact that food is going to
17 have to be higher.

18 I further suggest that USDA should look into
19 restructuring, to complement these natural happenings that
20 are going to be natural in occurrence and help to cope with
21 some of the out-of-agency concerns that are affecting
22 agriculture and I compliment you, Mr. Berland and Mr. Hjort
23 for being with us with Federal Reserve Chairman Mr. Paul
24 Vockler. These are the things we need, and we compliment
25 you on that, but we need help in the Interior Department,

1 FDA, EPA and with the enviornmental concerns, even within
2 your Department, because we as producers go to an individual
3 banker to budget our needs for the next year. There is
4 no way to know what those costs are going to have to be
5 in terms of Governmental impact, which they can have as
6 much as ten percent impact on our expense side column.

7 I think we need to improve communication, representa-
8 tion from the private sector, producer groups, et cetera.
9 Build credibility in the information programs of USDA.

10 We would like to suggest that you advocate expanding
11 markets in the foreign market development in those areas,
12 and accept that agriculture is going to be bimodal in nature
13 and we are going to have off-farm incomes into our operations
14 as well as commercial farms operations, into the future.

15 I think given the history we can be optimistic
16 about the future, but there is a growing pessimism in the
17 Government's ability to cope with the needs of agriculture,
18 and we suggest the industry's needs are ahead of the
19 Government's ability to cope with them.

20 Pessimism due to the slowing of agriculture productive
21 growth with less ability to lower costs. So, I think in
22 talking about a cheap food policy we are going to have to
23 be thinking more about more realistic prices, and that food
24 is going to have to be higher and, thank you, Mr. Secretary
25 for the time.

1 SECRETARY BERGLAND: Thank you very much, Mr.
2 Carlson.

3 Now, we will go to the question and answer portion
4 and run to about 11:40 or so.

5 My banker who has always had a good deal of influence
6 on me has said recently that inflation covers up a lot of
7 mismanagment. You don't need to be a very good manager to
8 buy low and sell high.

9 The inflationary spiral that we have carried now
10 for a decade or so has simply mislead some people. They
11 read market signals believing inflation would continue at
12 those rates, and made business judgments accordingly, and
13 some of those judgments are being tested by what has taken
14 place lately.

15 Mr. Jackson, will you describe for me your proposal
16 to establish an inflationary impact task force, I believe
17 is the way you described it? What do you have in mind?
18 I am intrigued by the idea.

19 MR. JACKSON: Mr. Secretary, we recognize that
20 as one member of the Cabinet of this Administration that
21 you cannot possibly carry the full load of a broad-based
22 realistic task force attacking the basic causes of inflation,
23 but we do think that you have a unique opportunity, because
24 of your position and because of your background to bring
25 together a coalition of the best there is in Government, the

1 best there is in the academic world, and the best there is
2 in the private sector, from the farm country bankers, from
3 the Farm Credit Administration and the first task, the first
4 job would be to develop testing devices again which every
5 Government program including but not limited to agricultural
6 programs would be measured, not only for its cost benefits,
7 but would be measured -- not only for environmental impacts
8 and economic impacts, but inflationary impacts.

9 We do contend that a great many programs have been
10 promulgated, both legislatively and in some instances
11 administratively, in which there was no thought to the long-
12 term inflationary impacts of these programs.

13 Really, what we are proposing as we look down the
14 long path of agricultural policy, that, indeed, you ought to
15 be commended, one, for raising the question about an
16 agricultural policy, and two, that that look down that long
17 path of agricultural policy has some test points in it.

18 Test points of cost benefits; test points of, not
19 how does this affect the environment alone. As farmers and
20 people living in the cleanest part of the world, certainly
21 I am concerned with the environment. But, I am equally
22 concerned with 18 percent inflation and that kind of testing
23 mechanism is absent from every Government program with which
24 I am familiar.

25 SECRETARY BERGLAND: One of the problems that we have

1 had in these decision making processes is that while people
2 publicly calim to be against inflation, it is kind of like
3 being against sin.

4 When it comes to the remedies, they are not so
5 sure.

6 We are under enormous pressures to add to inflation.
7 How do you think, or what do you think we can do about the
8 structural pressures that come in public decisions? On
9 spending policies for example, if we are going to deal
10 effectively with inflation, when we have almost every con-
11 stituent group in the United States demanding more inflation,
12 in fact, although they don't admit it.

13 The net result of the pressure is just that.

14 MR. JACKSON: There are many things you can do.
15 First, I think a very distinct deviation from past policies
16 was taken when you as Secretary of Agriculture said recently--
17 I think it was last Fall -- it was a quote in the American
18 Bankers' Association. I will read that quotation.

19 "That you intend even under the current pressures",
20 and this was shortly have the suspension of the treaty with
21 Russia because of their invasion of Afghanastan, "that under
22 current pressures to limit the USDA to being a very selective
23 lending agency and do not intend for the Commodity Credit
24 Corporation to become the world's largest farm banker.

25 This is a perfect example of what you can do as

1 Secretary of Agriculture, and what Government agencies can
2 do to combat inflation. Certainly, I recognize that
3 my farm customers, that my father, my brother, my sisters,
4 were standing in line at the Commodity Credit Corporation and
5 wanted to get their loans.

6 I recognize the political realities, the difficulties
7 of making those cutting decisions, but I commend you, sir,
8 and I commend this Administration for not only having made
9 this decision, but a great many other cutting decisions
10 that says that inflation will not continue to run rampant
11 and destroy this democracy and this Republic.

12 SECRETARY BERGLAND: Dr. Barry, there is nothing
13 wrong with the price of pork and poultry that a ten percent
14 reduction in output would not cure. And, in our judgment
15 that is the only remedy for those two commodities, for
16 example.

17 We are now getting calls from prospective borrowers
18 claiming they need a Government loan to help salvage their
19 pig industry, many of whom have expanded substantially in
20 the last year or two. They read the profitable corn-hog
21 ratios that were in place for the previous three years, and
22 attracted a lot of money, some of which were from persons
23 seeking a tax shelter and others simply seeking an opportunity.

24 For whatever reasons, we are now getting those
25 same persons back to us and asking for Government loans

1 to keep them in the pig business.

2 Do you think that we should use Government credit
3 as an instrument of overall policy making?

4 DR. BARRY: In the case of the livestock industry,
5 there is no sophisticated equipment so when there are problems
6 in the sector the farmers seek short-term temporary responses
7 through seeking emergency loans, and these are not based
8 into a systematic financial control program that is well
9 thought-out.

10 I would say that when there is not a well-developed
11 financial control program at the public level, then short-
12 term responses in making credit available are going to do
13 perhaps more harm than good in the long-run.

14 On the other hand, if a financial control program
15 could be developed that is comparable to the price of pork
16 in the livestock sector, perhaps the public program could
17 play a more effective role.

18 SECRETARY BERGLAND: Do you believe that we should
19 examine the structure of the applicant, the applicant's farm,
20 in deciding whether or not to make a loan?

21 I am thinking, for example, I just had a call a
22 few days ago from a Congressman who had a constituent who
23 had a feed store, and within the last two years went into
24 a large pig factory and is going under.

25 Do you think we ought to help? Do you think we should

1 make a judgment as to whether that is something we should
2 finance, but somebody -- maybe for other reasons, maybe
3 a young farm family just starting with heavy debt service
4 is unable to stay alive because of the pig business, should
5 we make a distinction between these kinds of things, these
6 kinds of applicants?

7 DR. BARRY: It seems to me, for administrative
8 feasibility, the credit programs need to be tailored to the
9 industry one is serving, and to the extent that the
10 applicant is involved in it, rather than simply financing
11 a person who may be heavily involved in nonfarm activities
12 and has an interest in a large hog system.

13 I can see some difficulties in where one draws
14 the line, and for administrative feasibility it would work
15 out perhaps best to tailor the credit programs to those who
16 are more substantially involved in the farming industry.

17 SECRETARY BERGLAND: Some of the credit provisions,
18 some of the laws that drive us and bind us, create an
19 entitlement scene where if you can't get credit elsewhere,
20 you are entitled to Government loan.

21 The agency, the Farmer's Home was set up to help
22 the so-called small family farm, whatever that means, but
23 now we had last year 300 loans of more than \$1 million a
24 piece for economic emergencies. We had more than \$13 million
25 in one farm in one state, and they are getting dragged from

1 piller to post.

2 I am trying to pull it back together, to decide
3 what the role should be. Is it a responsive, reactive kind
4 of thing?

5 DR. BARRY: This is part of my remark earlier,
6 about not really being part of a long-run, systematic control
7 program. It may need to be tailored to the farming
8 sector exclusively.

9 SECRETARY BERGLAND. Governor Wilinon, do you want
10 to expand briefly on your remark. I couldn't find in your
11 prepared statement dealing with the question of tenancy.

12 Now, the value system in the United States is such
13 that we are kind of expected to pay for a farm in our life-
14 time, and owning land is like owning a piece of the rock,
15 and my dad always said, farmers tend to live poor and die
16 rich, because of this phenomenon.

17 Is that something we should examine?

18 GOV. WILKINSON: I definitely think so, Mr. Secretary.
19 I had raised the question, first of all, that is it inevitable
20 that in the long-range structure there will be a separation
21 of land ownership operation. Is this inevitable? What kind
22 of government programs are going to contribute to or oppose
23 such a development?

24 What I have said is that Government priorities must
25 be first placed on controlling inflation, and I hope we have

1 all echoed that here this morning.

2 I would definitely contend that inflation is the
3 basic cause for increased land values that must concern all
4 of us as landowners.

5 Number two, Government policies must insulate
6 payment benefits from being capitalized into land values,
7 and this where I think that your targets and your loan
8 rates should not be tailored, Mr. Secretary, to the highest
9 cost areas.

10 I think in some way we cannot allow a farmer and
11 a rancher to assume that inflation will be there and can
12 in five years build his program with that anticipation.
13 Or, secondly, that he can continue to depend on increasing
14 land values to pull him out of some difficulties.

15 Our greatest concern is that Government policies
16 have through the Natural Disaster Program, the Economic
17 Disaster Program, the SBA as well, have inevitably induced
18 farmers to more financial leverage and this is something
19 they should not expect to continue to live with.

20 SECRETARY BERGLAND: What, in your view, should
21 Government's role in the credit field be?

22 GOV. WILKINSON: Government's role? You referred
23 to disaster, natural and --

24 SECRETARY BERGLAND: For everybody? What about the
25 entitlement business?

1 GOV. WILKINSON: No, Mr. Secretary, I do not
2 believe in the inevitable entitled concept prevailing in
3 agriculture. I think the need, the need must be built into
4 that, and in the Natural Disaster Programs and the Economic
5 Development Programs, I think we have found ourselves, again,
6 financially leveraging ourselves to a degree that we cannot
7 even continue to operate under a level program.

8 Government programs, in my estimation, must be
9 there to take the total disaster for those who are economi-
10 cally distressed, but not for those who have been long in
11 business and financially stable.

12 Government programs must be there to take care of
13 those policy decisions that are nonfarm oriented, such as
14 the recent embargo action. Government programs must be there
15 to help the young farmer gain access to the agricultural
16 community, but not use Government credit programs for the
17 inevitable protection of all of agriculture.

18 This can be done through your commodity programs,
19 through the new insurance concepts and possibly other
20 similar programs.

21 SECRETARY BERGLAND: Mr. Olson, my mother and
22 dad retired 25 years ago, and they have their lifetime
23 savings -- or most of their lifetime savings, on Certificate
24 of Deposits in my hometown independent bank.

25 They recently discovered the money market window.

1 They have had CDs come through this winter. I think they
2 were earning six and seven percent, which was the basis
3 on which my bank had built their lending portfolio. Not
4 only their savers, but the community savers. But the
5 recent liquidity in the money market, which I don't under-
6 stand, has created a changing situation in that some of
7 my parent's CDs left my hometown bank. I know that. They
8 bought some of these 14 percent instruments.

9 How much of that has happened, and to what extent
10 has that impaired the lending ability of the rural bank?

11 MR. OLSON: Mr. Secretary, we have found in the
12 commercial banking system, at least in Nebraska, that the
13 saver like your mother and father become very sophisticated
14 and have found these avenues of investment if not being
15 offered in their own bank -- which we have, we have offered
16 it to the extent we can by law. The money market certificates
17 which are 181 days and return those rates, but prior to
18 that time we have found considerable amounts of our deposits
19 leaving our banking system. At least on a short-term basis.

20 As a result of this, it has, in fact, lessened our
21 liquidity and our ability to serve the credit needs because
22 of the loss of deposits.

23 We think that, at the present time, that we are
24 able to compete with other avenues of investments, and
25 consequently these funds are returning to the banking system

1 as a whole.

2 I think that probably we would like to feel that
3 with current law where the banks now can provide \$100,000
4 of insurance, and in often in cases prior to that time
5 deposits were limited to \$40,000 per customer. Now we
6 are able to retain larger size of deposits, so this has
7 really not been a problem in recent times for us.

8 We are always concerned about loss of deposits and
9 other avenues of investments to provide credit that is
10 needed especially for the amount of money that is required
11 for farm operation today. I think maybe this is partly what
12 you are bringing up, that it takes so much more money for
13 my farm and ranch customers to operate today as compared
14 to just five years ago.

15 That again brings back the point on inflation which
16 was just discussed. That is our major concern.

17 SECRETARY BERGLAND: Your testimony was rather grim.
18 You said that you think that everything is about to become
19 unglued. Who is in trouble? Among those in your bank?
20 I am talking now about the borrowers of your bank. Is there
21 a group you can describe as being in more trouble than any
22 other group, or is it a general depression throughout your
23 community?

24 MR. OLSON: Mr. Secretary, I think today it is
25 a general group. Obviously the hog producer is in the most

1 trouble today, but that again is because of too many hogs.
2 The cattle producer was in the same situation a few years
3 ago, but today I think because of, number one, we talked
4 about the cost of production, high interest rates, I don't
5 have a customer that I can honestly say, in a cash flow
6 situation, that he is operating profitable today, as far
7 as my farm and ranch customers.

8 I am really concerned to this extent. A recent
9 survey of the Nebraska banks, 300 of which responded to the
10 survey, indicated we loaned 72 to 74 percent. That is an
11 average as opposed to what would normally be at this time
12 of the year, about 55 or 60 percent.

13 If you really want to know who is in trouble, I
14 think the bankers are in trouble. I think we have many
15 farmer and ranch customers who are practically broke and
16 don't even know it at this point, because they are reaching
17 the point where we are just starting to lend funds today,
18 but they are going to get their crops in and they are going
19 to accomplish this.

20 But I am concerned about their ability to pay off
21 that debt, whether it is a FHA loan, a PC loan or a commercial
22 bank loan. I think that is a problem down the line, six
23 months from now.

24 SECRETARY BERGLAND: What percentage of your
25 customers will you be unable to finance this year?

1 MR. OLSON: It is almost a question which I antici-
2 pated, and I think I can say that I personally am going to
3 be able to service all of my loan customers that I currently
4 have.

5 I, again, am concerned about their ability to repay,
6 and the cash flows, they are not coming together. Now, I
7 am hoping through exports or whatever it might take, that
8 six months from now the grain prices, the cattle especially
9 because I am heavily involved in a cattle area, I am hoping
10 there will be improvment so repayments will be there.

11 I did this also. I surveyed a number of bankers,
12 not only in Nebraska, but throughout the Midwest in
13 anticipation of your question, and most of them indicated
14 liquidity was tight but they intended to serve the credit
15 needs of their customers to the extent that they could,
16 but they would not be taking on any new lines of credit,
17 no capital expansions. Just strictly the basic operation.

18 SECRETARY BERGLAND: Mr. Carlson, what impact does
19 the cost of money have on the structure of the cattle feeding
20 business, both in the near-term and the long-term?

21 MR. CARLSON: It has a great deal, Mr. Secretary,
22 in terms of the built-in cost that has to be plugged into
23 the feeding.

24 We are looking at \$30 to \$40 just on these cattle
25 that are going into the feed lot as an interest bill entirely.

1 On cattle going to grass this spring it has been
2 pointed out that there will be more dollars expended for
3 the cost of the money to put cattle on grass than it is to
4 pay for the grass.

5 So, that is a built-in cost that has to be recovered,
6 and as we plug those costs into break even, we are looking
7 at \$70 to \$72 cattle, and as you know, we are looking at
8 \$64-\$65 cattle, so we have a loss position, just as Mr.
9 Olson indicated, across the board in all of agriculture
10 where break-evens are some 20 percent less than the current
11 market conditions in all agriculture.

12 SECRETARY BERGLAND: What is this going to do to the
13 structure of the cattle feeding industry? What are people
14 doing about all this?

15 MR. CAROLSON: There is a go slow attitude, placements
16 into the feedlots are behind.

17 It looks like the April placements were something
18 like 89 percent, but it looks like as soon as we get the May
19 figures showing the April placements, they could be down into
20 the 75 area.

21 Where placements are substantially less, there is
22 a go-slow attitude. There is a feeling of losses since
23 last August and an unwillingness to go ahead and to risk
24 further losses until either replacement cattle could be
25 purchased at less cost, or that the future -- either through

1 the futures market, or a bold bullishness would appear.

2 I think before people will be actively placing those
3 cattle, I think we are down to 60 to 70 percent of the
4 feeding capacity being used at this point.

5 SECRETARY BERGLAND: I am convinced that farm
6 profits are inevitably capitalizing on land values, and the
7 higher we set prices, the higher the land grows. This is
8 a non-win, highly inflationary spiral we have got to break.
9 It is tougher to do than we might realize, but necessary.

10 How much money does it take to back up one brood
11 cow now? Do you have a commercial cow herd?

12 MR. CARLSON: I certainly do. It is in the neighbor-
13 hood of two to \$3,000 depending on the geographical area
14 you are in. But that is a rental value on the land, that
15 is the investment of the cow unit and that is the management
16 equipment, that is the herd production, whatever.

17 But there is that kind of dollars behind each
18 animal unit cow.

19 SECRETARY BERGLAND: Is that value the rental value
20 and the value of the cow itself the function of the general
21 level of inflation and the anticipated profits in the business?

22 MR. CARLSON: Not really. As you are relating to
23 land escalation as a result of inflation or Government
24 policies, I don't think that is plugged into that level when
25 you use rental value.

1 This is a competitive value that that land can
2 actively produce plugged into that two to three thousand.

3 SECRETARY BERGLAND: Okay, sir, then if cattle
4 were \$100 a hundred-weight, that rental value would be higher
5 than if cattle would be 40.

6 How do you break this? How do you get away from
7 the inevitable sinking of your investment or margins into
8 land as a result of competitive forces?

9 MR. CARLSON: Would we want to break it?

10 SECRETARY BERGLAND: We are talking about stopping
11 or controlling inflation.

12 MR. CALRSON: In terms of land being accepted across
13 this nation as a good investment, and it has proven to be
14 a good investment, I don't know whether we would want to take
15 any superficial means to control land values.

16 SECRETARY BERGLAND: I believe you say that land
17 values are driven by factors that have nothing to do with
18 their earning capacity, and it would be a catastrophic mistake
19 to establish Government policy on that inevitable force of
20 land prices are going to drive the value of food, which
21 drives everything else.

22 I am trying to figure out what to do with the
23 root cause.

24 MR. CARLSON: To me, I don't accept that Government
25 policies have had that much influence on land values. That

1 has been a competitive free market system.

2 SECRETARY BERGLAND: That is true, but I can remember--
3 I am from Northern Minnesota -- and while I have never been
4 in the cattle business my neighbor is in it. I can remember
5 when it took \$400 investment for a cow, and they made money.
6 Now it is \$2,000. I don't know where it is going to go, but
7 cattle producers in many cases are not making money today.

8 Where do we start with all of this? If we are
9 going to feed inflation, we are just going to have inflation,
10 and I know it is a competitive thing.

11 Some of it, I think, is chargeable to tax policy.
12 I think our tax policies themselves are highly inflationary,
13 but that is a separate matter.

14 What do we do, if anything? Do we just let the
15 market forces find that level and not plug Government credit
16 in? You see, that is the problem we have. When we let
17 the market forces arrive at their normal level and the
18 squeeze is on, and that \$2,000 investment comes down to
19 something substantially less because of the squeeze the
20 immediate reaction is for us to put Government money in to
21 make up the difference.

22 Now, the question I guess is, should we let the
23 thing fall out?

24 MR. CARLSON: We have got to control inflation.
25 We certainly do. It is pretty much brought on by increased

1 productivity, by less deficit spending by the Federal
2 Government, by greater impact of positive regulation on the
3 industry, and I think some of those things will come back
4 into play when we are able to get capital investment built
5 back in. When we get to build back in confidence into the
6 industry we can lower costs.

7 I think we all need to accept, as I pointed out,
8 no longer can we have a cheap food policy. We need to pro-
9 duce food at a reasonable cost, however. But, we are going
10 to have to plug in greater efficiencies, and there are many
11 that we can, but we are in a go-slow-hold position now
12 because of the productivity and some of the Governmental
13 policies, some of the things that you pointed out.

14 SECRETARY BERGLAND: Thank you very much, Mr.
15 Carlson.

16 Mr. Hjort.

17 MR. HJORT: First, Mr. Jackson, let me continue
18 on with this question of inflation you addressed and had
19 some specific proposals, that I gather would be targeted.

20 Does your concern over inflation extend to the
21 inflation in land prices and if so, would you favor policies
22 that would be designed to stop inflation in land prices?

23 MR. JACKSON: Yes. That is a very simple and easy
24 answer, both to your question and to the Secretary's question
25 to the other members of the panel.

1 Basically what you have got to do, we have got to
2 be willing to bite the bullet all across every sector of
3 the society in the economy of the United States. The
4 housing industry is taking the brunt of it today, and the
5 automotive industry is taking the brunt.

6 What we need in the way of agricultural policy is
7 enough of a safety factor so that we don't have a crash
8 in realignment of land values. We need enough shading in
9 tax policies so we don't have -- I am not talking about
10 foreign investors who are driving land values to artificially
11 high prices to where there is no connection at all between
12 the rental value of the land or the productivity of the land
13 or the sales price.

14 I favor policies that will inevitably bring about
15 an alignment of land prices to the productivity of that land.

16 MR. HJORT: Certainly, at least, I gather you would
17 be as you did say now and also in your paper, that the role
18 of the farm program should be to provide a safety net, I
19 believe is the term you use, and that I gather you take to
20 be one of the fairly fundamental policy positions to hedge
21 against unnecessary inflation effects?

22 MR. JACKSON: That is correct. Governor Wilkinson
23 alluded, I think, to a similar type of concept. The
24 one thing I would suggest, in the safety net concepts we
25 have a relatively free market, if not an absolutely, totally

1 free market. Underneath this are Government programs as
2 needed to catch the outfall in catastrophic events, including
3 political catastrophic events, not just weather events and
4 disasters.

5 But, I think one thing that has not been built into
6 the programs have been things that give a rifle target
7 approach to geographic areas, and to small but highly impor-
8 tant segments of the country.

9 For instance, the closest thing that has come to it
10 has been what the Government has done with regard to relief
11 in the upper-Midwest during the suspension of trade with
12 Russia, and to alleviate the liquidity problems of banks
13 and farm suppliers and everyone else.

14 There really was not, in fact, when that embargo
15 or suspension of trade occurred a program in the Government
16 that would let you move decisively, Mr. Hjort and Mr.
17 Secretary, into helping those people, legitimate farmers,
18 legitimate agribusiness people, who needed help and needed
19 it rather quickly.

20 So, there will be people who will go into bankruptcy
21 that should have stayed in. On the other hand, there have
22 been flagrant abuses of well-intended programs where you
23 have \$13 million or \$10 million loans that are highly
24 inflationary that do not contribute anything to the produc-
25 tivity of American agriculture in the long run.

1 You go from the sublime to the ridiculous. What I
2 am suggesting is a safety net, but also building in a degree
3 of flexibility so that you can target in on specific geographic
4 regions and specific problems.

5 It may be that a catastrophic frost in North Florida
6 may not affect a great many people, but for those people
7 living in North Florida it is very important, and you might
8 help such other catastrophies. A flood in the Mississippi
9 Delta might not adversely affect the upper Midwest, but to
10 those of us living in the Mississippi Delta it could be
11 a catastrophic event.

12 I wonder if we could turn the table? I suspect
13 as a red-necked country banker from Arkansas I am violating
14 protocol and ethics, but would it be appropriate for us
15 to ask a question of the Secretary of Agriculture, and you,
16 Mr. Hjort?

17 What can we farm lenders or credit users and an
18 academician of international and national prominence at the
19 table -- tell us what we can do to help in at least one
20 highly recognized problem that we all face, and have all
21 addressed, and that is the fight against inflation?

22 SECRETARY BERGLAND: You are doing it, Mr. Jackson.

23 MR. JACKSON: Thank you. I didn't expect that
24 quick an answer, but thank you.

25 SECRETARY BERGLAND: The fact is that you are sharing

1 with us your opinions, your highly trained professional
2 judgments based on experience that we value very highly,
3 or you would not be here today.

4 In formulating Department and Government policy for
5 1981, for the 80's and beyond, things you do and say here
6 will have a major bearing on what happens in the Congress
7 next year.

8 MR. JACKSON: Oh, is that so?

9 SECRETARY BERGLAND: Thank you.

10 MR. HJORT: Dr. Barry, in the hearings, and I think
11 there is a kind of general conception around the country,
12 that it is increasingly difficult to enter the business of
13 farming yet just yesterday in these hearings on at least
14 two occasions I believe it is fair to say that we were told
15 that it has always been difficult to enter farming, and that
16 it is not really any more different now, or more difficult
17 now, than it has been through the years.

18 Where do you come out on this from a credit stand-
19 point? Do you believe that where American agriculture is
20 today, that it is still possible although difficult as it
21 has always been, or are we in a situation where it is
22 becoming increasingly difficult and, therefore, we need
23 special credit type programs to facilitate the intergenera-
24 tional transfer?

25 DR. BARRY: Well, I have observed through the

1 students in my classroom at the University of Illinois that
2 for those who have a strong resolve to gain entry into the
3 production sector and the management ability to sustain their
4 position, they usually get in.

5 They sometimes get in through family assistance.
6 If that is not available, they get in without initial invest-
7 ment of equity, capital either, as managers or as skilled
8 laborers, and they often get established in a way where they
9 can accumulate a financial interest in a farming operation,
10 or a larger business over time.

11 Some of them start through service to industries,
12 financial institutions, through local contacts and eventually
13 gain access to entry either through entering their management
14 skills, perhaps equity capital as well.

15 As I indicated in my remarks, if one follows the
16 old approach of having -- immediately being an owner-operator,
17 that is impossible unless it is given to you, or at least
18 it is provided to you through family assistance.

19 The market for entry seems to be responding to
20 allow a reasonable entry in somewhat different ways than in
21 the past, and of course, it has structural consequences.

22 SECRETARY BERGLAND: Would you yield for a followup
23 to that? Do policies tend to discriminate against tenants,
24 USDA policies or Government generally?

25 Does it discriminate against tenants?

1 DR. BARRY: My first reaction was on qualifying for
2 credit at commercial institutions, but that is not answering
3 your question.

4 SECRETARY BERGLAND: Should I say, do the forces
5 tend, whatever they may be, tend to discriminate against
6 tenants?

7 DR. BARRY: I think if tenants are good managers,
8 and good entrapreneurs, that the discrimination if it is
9 there soon goes away.

10 I don't have a good -- I guess I would say no.

11 For the ones that have the good management ability.
12 For those that are in the middle range, we often -- the
13 story often turns to adequate programs of help not being
14 available, but even if they were available you wonder how
15 strong a contribution they would make over the long term.

16 MR. JACKSON: I don't really take exception to
17 Peter's answer, but I must because of my 20 years plus
18 experience in agriculture financing, the answer to your
19 question is, yes, Mr. Secretary. In fact, there are a
20 great many direct programs in existence, over the past years,
21 from the Farmers Home Administration, other agencies of the
22 U. S. Government, for which -- if you do own some land it
23 gives you qualifications for a much more generous, much more
24 liberal structuring. So, there is a bias in favor of
25 ownership and against the tenant, both in the private sector

1 and in the Governmental sector.

2 There certainly is in commercial banks.

3 MR. HJORT: John, you mentioned the topic, Risk,
4 and it raised the question, how much risk is enough and we
5 do have programs where there are significant differences in
6 the risk reduction that is associated with various government
7 programs.

8 There is one example -- soybeans and lettuce, as
9 we think of those -- one, it seems at the present time the
10 individual producer assumes a greater degree of risk. Where
11 in that spectrum, what is the proper role, what degree of
12 risk and how does one reduce risk to a tolerable or accept-
13 able level to interface with the credit system?

14 GOV. WILKINSON: That is a very difficult question,
15 Howard. I think that you are talking about the share of
16 the Government's risk. How much should Government absorb
17 the risk picture? The risk loss structure.

18 I have indicated that I think it would be unfort-
19 unate if the Government in a long range credit and support
20 program led the American farmer to believe that inevitably
21 the Government would absorb the highest share of that risk.

22 I think that it is very misleading if we are con-
23 cerned about the strengthening of the farm and ranch
24 families as we go into the future.

25 I think that risk has to be evaluated by the

1 commodity and by the individual and that is why it is so
2 difficult to give you a nice, complete, comprehensive
3 answer to this.

4 Risk is one thing with a beginning farmer,
5 and I concur totally with Dr. Barry that perhaps we have
6 mislead ourselves and the agricultural community in believing
7 that the Government or lenders should totally provide the
8 beginning young farmer with all the debt capital that is
9 needed to live at the standard that he and his parents would
10 like to live.

11 MR. HJORT: Where do you see us going as a society?
12 We have a proposal before the Congress that we expect them
13 to pass this time for profit insurance.

14 We have, over the years, an increased number of
15 disaster programs, and some commodities, we do have support
16 prices that are essentially the same as the market price,
17 and in effect, take the market price risk out, and in others
18 we don't.

19 There does seem to be, particularly these days,
20 it appears to me at least that we have a growing number of
21 advocates moving those support levels up there, and reducing
22 that risk.

23 Are we moving to the point where one should be able
24 to get capital free because all of the risk has been reduced?
25 Where do you see us heading as a society here in the direction

1 of reducing the risk?

2 GOV. WILKINSON: I think the trends concerning many
3 of us, and I hope many who have spoken to your panels,
4 indicates that we are leading to an almost total Government
5 absorption of the risk in agriculture, and I should not limit
6 it there, because I think it is too vastly understood that
7 it would total economy.

8 I personally think this is the wrong way that our
9 society should be going, and our Government should be
10 serving. I think that USDA should serve the agricultural
11 borrower in those unanticipated natural and economic diasters,
12 but in no way should it underwrite the errors that will
13 inevitably be made by individuals.

14 I think individuals should have the right for failure,
15 and hopefully also, the great right for success and Government
16 should not lock itself in to a guaranteed success for every
17 individual who aspires to be a farmer.

18 MR. HJORT: Thank you.

19 Mr. Olson, let me ask you a very general question.
20 From your vantage point, do you believe the present
21 agricultural credit system in its entirety can continue to
22 serve the credit needs of American agriculture with only
23 fine tuning from here on, or do you foresee a time in the
24 future where it will take major changes in that system
25 to adequately serve the industry. And, if the latter, what

1 would those directions be?

2 MR. OLSON: Well, I think, Mr. Hjort, first of all,
3 believing in the free enterprise system as it is, and you
4 referred to the entire credit system, I would like to think
5 that with the commercial banking institution as well as
6 the farm credit system being permitted to compete, I think
7 that we can, in fact, provide for the credit needs of
8 America, rural America today as well as in the future.

9 As far as the input by the Government, USDA in terms
10 of fine tuning, I think that -- and I am not quite sure that
11 I understand to what extent you mean "fine tuning", I feel
12 that there are different types of lending programs that
13 are available to the farming sector as it is today.

14 I think, if those types of Government lending
15 programs will be needed in the future again to provide the
16 stability which has already been mentioned here, then I
17 think those in itself can be used on a temporary basis, again,
18 only on a temporary basis for special situations.

19 Other than that, I think the banking industry,
20 along with the farm credit system, can meet the credit
21 needs of rural America.

22 MR. HJORT: The rural banks have found the major
23 money markets increasingly this year and are rapidly
24 becoming like urban banks. Where do you see that ending?
25 Are they going to serve the -- or continue to serve the rural

1 clients, or are rural banks increasingly going to serve urban
2 clients and let the farm credit system take over as has been
3 happening in the last few years?

4 MR. OLSON: I am concerned about this. I think
5 Governor Wilkinson indicated, that the Farm Credit System,
6 I think their loans increased about 33 percent last year.

7 This has to be a concern to us about how dominating
8 is the Farm Credit System going to be. You are quite
9 familiar with the proposed legislation at this time, and
10 we are working -- at least our Association -- is working
11 closely with the Farm Credit System in developing this
12 legislation.

13 We are somewhat concerned, I guess, that we feel that
14 maybe we ought to be on the same statute as the Farm Credit
15 System, and I think you are bringing it up because it is
16 extremely important to us right now.

17 We look at the taxation. It is indicated that the
18 Farm Credit System is serving the credit needs in a great
19 way at no cost to the farmer, and I can't quite share this
20 100 percent, because they are not being taxed at the present
21 time, and that has put us at a different level.

22 I would like to also think that we would all operate
23 under the same usury law, that we would also be exempt from
24 the Truth in Lending such as the PCAs are.

25 So, we are concerned, and I would like to think that

1 it doesn't become such a system that becomes so dominant
2 that it overplays its role as a need-be basis, and I also
3 think the Foreign Credit System should just serve the
4 agriculture needs and not get into some other areas.

5 MR. HJORT: I know we are running out of time, but
6 I need to follow up with one more on that.

7 In your judgment that increase in the Farm Credit
8 System just last year, would you say more of that is because of
9 special provisions that you have identified associated with
10 the Farm Credit System, or is it because the rural banks
11 were not trying to be as competitive as they had been in the
12 past?

13 MR. OLSON: No, I feel that probably the reason for
14 that is -- I think the rural banks were to the best of their
15 ability serving their farming customers, but again, I would
16 like to point out that the needs of agriculture were so
17 much greater and, quite frankly, I welcome the opportunity
18 to participate with PCAs because I absolutely didn't have
19 the liquidity in funds. So, I took it upon myself to parti-
20 cipate with them.

21 We like to retain customers. We don't like to lose
22 some of our excellent borrowers to PCA. We needed them and
23 I think we need to continue to work together.

24 MR. HJORT: I know I can't proceed on this, but the
25 latest statistics I have seen show that the rural banks have

1 not increased their funds -- loans to farmers this year at
2 all. And, certainly the Farm Credit System has, and there
3 has been intense demand for credit out there, and for that
4 to be happening -- and a lot of times its layed on the
5 Fed system of constraints, but obviously the system is not
6 even using and not evening up to those constraints.

7 So, there is something happening back in that system
8 that isn't really pulling out well.

9 One last question for Mr. Carlson.

10 What do you see the impact of this current credit
11 situation and the changes that have taken place in the credit
12 system? You indicated here that you would expect rolling
13 charges, not fixed rates and so on.

14 What impact do you see on the expansion of the cattle
15 inventory? I am not talking now about cattle feeding. We
16 are going back to the cow-calf operator.

17 MR. CARLSON: At the start of the year we expected
18 like a two percent increase in the cattle herd numbers.
19 We were down slightly under 11 million head and we thought
20 we would build to about two percent.

21 Now with the interest charges and the indecisiveness
22 of the producing segment, we are anticipating there will be
23 virtually no increase. If any, it will be a small increase.

24 There are still geographical areas that are liqui-
25 dating cows at this point, some for integrated operation, some

1 for cash flow situations, but we are not anticipating hardly
2 any buildup into the cow herd this year which will prolong
3 the cattle cycle.

4 We should have had a biological increase by 1985, '86.
5 Now it looks like it will be pretty much longer, depending
6 upon what the signals are from here on with the competitive
7 rates, with the cost factors being built into the operation
8 now.

9 MR. HJORT: Does that mean that you see that excess
10 supply of heiffers moving into slaughter in a non-bid status?

11 MR. CARLSON: Those decisions will probably be
12 made this Fall, and just waits to be seen, what are the
13 economic condition.

14 If we continue to have an ecomony that is slowed
15 down; if we have unemployment that is fairly high; the
16 demand for all red meat is downward, those decisions for
17 those heiffers, they will go back into the feedlot and not
18 into the cow herd.

19 If we get any optimism here, because we are in a
20 buildup positioning phase of this cycle, those heiffers --
21 some of which could be put back into breeding -- but I
22 think those decisions are between now and this Fall, Mr.
23 Hjort.

24 MR. HJORT: Thank you.

25 SECRETARY BERGLAND: Thank you very much gentlemen.

1 That brings this morning's session to a close.

2 We thank you for preparing and for coming and for sharing.

3 We will resume at one-thirty.

4 (Whereupon, at 11:45 a.m. a luncheon recess was
5 called, the public meeting to resume at 1:30 p.m.)
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

AFTERNOON SESSION1:35 p.m.

SECRETARY BERGLAND: The proceeding will commence.

This afternoon we have on the first panel, Dr. Zach Willey, representing the Environmental Defense Fund.

Reverend Dr. Charles Bergstrom, the Lutheran Counsel in the United States.

Neil Sampson from the Nationals Association of Conservation Districts.

Mr. Robert Rodale of the Rodale Press.

And, Mr. Garth Youngberg, Department of Political Science at Southeast Missouri State University.

And, if it is okay with you we will start in order of those names appearing on the list. Dr. Willey.

DR. WILLEY: Thank you, Mr. Secretary.

I would like to summarize my written statement as fast as possible given the time restraint and would offer to supplement the written statement later for the record with more documentation.

SECRETARY BERGLAND: Your statement will appear in the record as prepared.

DR. WILLEY: I don't need to summarize for anyone here what the problem is as far as the resource base in agriculture or the environmental impacts of agriculture, both in terms of land-water quantity and quality, and the availability and price of liquid fuels to agriculture

1 and the diversity of crop cultivars.

2 What I would really like to comment on more is the
3 potential as I see it, as my organization sees it, for
4 technical progress and new changes and practices in the
5 field to remedy some of the trends we are presently
6 experiencing within the national resource base in agriculture.

7 The producing of U. S. agriculture has always been
8 highly reliant upon the development and dissemination of
9 technological innovations. Government policy has been
10 aware of that and has subsidized that technical change in
11 many ways for many years.

12 We believe there presently are a set of technologies
13 that hold the possibilities in these areas of land and
14 water and fuel availability to remedy some of the trends
15 we are currently experiencing whether it be in more
16 recently developed irrigation systems or in integrated
17 pest management techniques presently under development.

18 The important point of all of these technologies,
19 whatever level of research development they are at, is that
20 the associated trial air process is absolutely necessary
21 in order to gain benefits of those technologies in terms
22 of resources in the environment.

23 The structure of agriculture and supply industries
24 will be a key determinant of the pace at which new
25 innovations are adopted in agriculture. Orderly and timely

1 diffusion of new technologies will require competition and
2 economic incentives among both buyers and sellers of those
3 technologies and practices.

4 Government policies which do not address those
5 needs or incentives to change practices and adopt new
6 technologies will not address the underlying resource problems
7 of agriculture.

8 Unfortunately, there are quite a few examples in
9 terms of present Government policy where this is the case,
10 where the underlying needs for competition incentives have
11 not been addressed. I will try to give a couple of examples.

12 In the water area, historically water development
13 in the U.S. for agriculture has been subsidized for projects
14 which sell water at prices which are well below cost.
15 This has been a strategy that was opted for in the early
16 1900's, to stimulate development of irrigation projects.

17 Irrigation projects have been developed and what
18 is meant in terms of subsidy and pricing is that more projects
19 have been developed than otherwise necessary.

20 Also deposition of salts in soils has resulted in
21 a higher rate than would otherwise, particularly in the west,
22 in terms of water pollution. It has been also aggravated
23 by lack of sufficient irrigation brought on by subsidies
24 in the price of water.

25 On the marketing side, more indirect effects

1 of such water policies have also had serious implications for
2 resource conservation and pollution. The prospect of
3 subsidized, reliable water supplies has lowered the risk
4 of capital investment, thereby encouraging increasing
5 farm size and specialization. This is something you have
6 heard over and over again.

7 Capital intensification and utilization of large
8 monoculture cropping schemes that have accompanied that
9 development have also had environmental impacts and resource
10 impacts which we are presently experiencing, including the
11 decline of genetic diversity in the field and problems with
12 implementation of integrated pest management, which relies
13 on diverse populations of species to maintain pest control.

14 Another example of this in the pest management
15 area has been research and development, where over the years
16 Government policy of subsidizing development of new pest
17 controls in the land grant colleges has been very much
18 pesticide-oriented, and it has only been in recent years that
19 that policy has changed around forcefully to promote integrated
20 pest management as a strategy that can reduce reliance on
21 pesticides.

22 A few general remarks, it has often been said that
23 size and specialization have lowered food prices. It is
24 not at all clear at this point if all of the subsidies
25 that presently exist, both in the supply of inputs and in the

1 commodity markets and in research and extension and taxes
2 and so forth, were factored into the price of final food.
3 That size and specialization, as we understand it today,
4 would be the most economic way to produce food, and it is
5 clear from our perspective that there are many problems with
6 size and specialization in terms of the long term resources
7 and environment that are aggravated by these policies.

8 So, our first suggestion would be to reconsider
9 programs which subsidize, or act as disincentives to new
10 technologies which have resource and environmental benefits.

11 Secondly, to review regulations in light of whether
12 or not there are cost benefits which cannot be captured by
13 market mechanisms.

14 My times up.

15 SECRETARY BERGLAND: Thank you very much.

16 Rev. Bergstrom.

17 REV. BERGSTROM: I should begin by saying that I
18 am a layman here, but I am here to present words by farmers
19 who are members of the Lutheran Farmers.

20 There are basically two areas of concern addressed
21 in this paper, and the first has to do with stewardship,
22 which, of course, is a biblical term related to a concern
23 that the churches have for the uses of God's blessing and
24 God's gift as far as this earth is concerned.

25 The Churchworld Service Programs are based on this

1 kind of an effort, and I am sure the things included in this
2 paper from the American Lutheran Church can also be repeated
3 by various denominations.

4 A steward is someone who uses that which belongs
5 to someone else and for which he is responsible, and it is
6 at this point that one of the obvious tensions develops
7 between the whole area of conservation and the environment
8 in which we live.

9 If the church supports private ownership, it also
10 has to recognize the reality of the use of that ownership
11 in terms of stewardship and replacing in that earth that
12 for which it is necessary to continue.

13 A list of these concerns of the various gifts,
14 here, the management of water resources; pollution of air
15 and water; and also, the depletion of resources, particularly
16 of the use of agricultural implements; and then farming
17 styles.

18 One of the things I would like to add at this point
19 is the concern that the Department of Agriculture in funding
20 and supporting farmers would also be taking a great deal
21 of care about the use and possible depletion of land quality
22 as it is funding those farmers for the kind of work they
23 are doing.

24 The second, in addition to stewardship is that
25 of justice. Social justice and economic justice. Here

1 again, tensions develop, as they always do, when you work out
2 ideas. The fact that the hungry need to be fed, and also
3 that the farmers need a just return for their work.

4 I have a copy of a study which was two-years old,
5 done by the State of North Dakota on progressive land tax
6 and I am, indeed, no expert on this but one of the suggestions
7 and efforts over history, of course, has been to try to
8 avoid taxing those people who have lower income from the
9 land that is theirs.

10 I am sure others could discuss this far better than
11 I can myself, but these things to which I refer are part
12 of the work of the Department, and surely the work of farmers,
13 so that food prices are fair as the environment produces
14 them, but at the same time the church has a concern for
15 the poor in our world.

16 The only other thing I would like to add to the
17 report which is before you, Mr. Secretary, is the fact --
18 as you are aware, the International Task Force on U. S.
19 Food Policy, headed by Dr. George Chauncey of the
20 Presbyterian Church, USA, gathers together a number of
21 church groups with concerns for environment for farming and
22 for the produce that is to be used.

23 If there is any value that I would see, particularly
24 the Church's participation -- and in the American Lutheran
25 Church's statement which is before you, it would be the

1 ongoing value of turning to those people who spend time
2 regularly on behalf of the church on issues of food policy
3 and hunger concerns.

4 These are available through the American Lutheran
5 Church, but also through this cooperative venture, the
6 International Task Force on Food Policy.

7 Thank you.

8 SECRETARY BERGLAND: Thank you very much.

9 And, now, Mr. Sampson.

10 MR. SAMPSON: Thank you, Mr. Secretary.

11 We would like to point out several things today.
12 Just in opening our comments I think the first is, the need
13 to discuss and take a look at the insitutional framework with-
14 in which the Department's policies and programs can reach
15 the American landusers.

16 We represent the Conservation District Movement,
17 which is a part of that. I think the important thing to
18 remember is that the Department's policies and programs
19 do not affect directly the way in which land is used.
20 They affect the people who use land, and an institutional
21 framework has to be able to reach out and involve those
22 people. Using the land properly is important; that it is
23 economic both in the long and short term, and that the
24 Department, indeed, supports that sort of attitude.

25 I can find very little evidence that farm size

1 per se is related to the way in which resources are used.
2 I think it is more important in the whole issue of tenure,
3 how attached people feel to the land within the current
4 generation and in intergenerational way. The landowner
5 who feels tied to the land, both in terms of himself and
6 his children, is much more likely to provide the kind of
7 stewardship we seek in terms of farm resource and management.

8 The farmer who feels that he is on the way out of
9 farming, for whatever reason he feels that, is not the
10 same kind of steward, and then instead becomes a land
11 consumer and that can be particularly picked up in an
12 urbanized area. It is as true on a 3,000-acre wheat ranch
13 or a 320-acre dairy.

14 The problem I call to your attention here is not
15 that we know structure is related to conservation, but
16 we don't. There is not enough information. I don't believe
17 research has been aimed that way, and the important question
18 is, if we are, in fact going to suggest that certain
19 policies and programs aimed at changing the structure will
20 have any impact. Right now I know of no way to build that
21 linkage.

22 It is true, however, as we look around American
23 agriculture today that farmers feel they need a safety net
24 under them. I think that is an important part of it.

25 We think that there needs to be an important

1 policy thrust in helping individual farmers feel like they
2 are going to stay in business, and at the same time we need
3 to encourage soil conservation and the retention of prime
4 land in agriculture.

5 There ought to be a way to deal with all of those
6 goals simultaneously and we think a partial solution, a
7 partial start, lies in a system of providing a long term
8 contracting capability between the land user and the
9 Department, where he agrees to keep his land in agriculture
10 and to use it within the soil, water conservation programs
11 and parameters and he is entitled then to some of the
12 economic benefits of farm programs, either in an added
13 bonus or some other way.

14 In other words, it seems to me that we have to
15 send a clear signal that this is the encouragement that
16 is coming out of Washington.

17 I think we need to shift our research priorities.
18 We have to talk about sustained yield agriculture, because
19 not only is that going to be economically better for the
20 farmer in the long run, it is going to be more stable in
21 terms of resource conservation.

22 I hope we can take a look at a system which I call
23 Integrated Crop and Soil Management. It seems to me that
24 farmers have to look at ways in which they can select a
25 variety of crops and management methods that are tied to

1 the soils they have at their disposal, and that they will
2 search for ways that they will use that in a sustained
3 yield way.

4 That sustained yield way might be at a slightly
5 lower yield than the total maximum, but as the price of
6 inputs gets higher, I think we ought to recognize it may be
7 a more economic way of production, as well as environmentally
8 sound.

9 Finally, I would like to point out that I feel that
10 the views of the Department in regard to the problem of both
11 soil and water conservation, its dimension, agricultural
12 land conversion, its dimension, are being at least down-
13 played if not sort of muted by your Department's publications
14 at this point.

15 As I look at the situation right now, the most
16 startling resource trend we have today is to take what
17 happened to us in the last ten years in terms of land loss
18 to compare that with what has happened to us in the last
19 ten years in terms of increased demand at home and abroad
20 for products, because when you graft those two lines they
21 begin to approach each other.

22 The resource study looks 50 years ahead, and I think
23 that is well and good, but I think the problem is of more
24 immediacy, and while I think it is not useful to talk
25 about running out of land, or having some emergency, I do

1 think it is useful to take a look at the fact that, at the
2 two lines as they converge, it is going to cause serious
3 economic implications that are going to reverberate through
4 agriculture. They are going to have serious affects on the
5 land, and you are going to have to respond to them with
6 policy initiatives.

7 Thank you.

8 SECRETARY BERGLAND: Thank you very much.

9 Now, Mr. Rodale.

10 MR. RODALE: I think it is clear that the structure
11 of agriculture has changed radically in our lifetime.
12 Particular aspects of that change which are pertinent now
13 are the increasing energy intensiveness of agriculture, and
14 especially the failure of the farm community to develop
15 a productive system that is based on sustainable and renewable
16 resources.

17 An additional factor is the reliance of American
18 agricultural production on fertilizers and other inputs that
19 have to be shipped long distances, as well as the marketing
20 system, combined with a market system that is heavily
21 dependent on moving the products of farms long distances.

22 Because farmers are consuming their capital by
23 failing to halt soil depletion, and because they rely so
24 heavily on both inputs and distribution patterns which are
25 heavily energy dependent, it is clear that the current

1 state of American agricultural structure is one of con-
2 siderable vulnerability.

3 The potential for catastrophe and possibly even
4 collapse of this system seems destined to increase with each
5 passing year, as population increases, land resources contract
6 further, and energy supplies become less available, or at
7 the very least less dependable.

8 What should be the response of the Government to
9 the obvious need for structural change that would promote
10 conservation, environmental safety, better resource use,
11 and a resulting more stable system of production?

12 Before that question is answered, we need to realize
13 that the people themselves are going to have to come up
14 with structural ideas and implement them on their own.

15 One example of this type of grass roots answer to
16 the problem is organic farming. Organic farming provides
17 much greater stability to farm operations over the long
18 term through freedom from dependence on high cost inputs
19 to the farm brought in from distant points.

20 I believe the organic trend is likely to build as the
21 threat to conventional agricultural structures becomes more
22 apparent to the public and to farmers themselves.
23 My feeling is that the great distance over which most food
24 travels in its path from farm to the consumers table will
25 be seen as a structural issue of paramount importance.

1 We are now a country hungering for more security
2 as well as nourishment. Organic farms located near
3 population centers will be seen as an essential part of the
4 kind of food production structure we need to carry us
5 through the coming periods of economic and social stress.

6 I hope that the Department of Agriculture will
7 recognize that some of its past efforts have helped American
8 agriculture reach its current degree of vulnerability.

9 A variety of efforts and policies of the Department
10 have fostered the use of energy-intensive machines, and
11 increased dependence on non-renewable fertilizer elements which
12 would soon be very high in price, such as phosphorus.

13 Chemical pest control methods have also been
14 supported heavily by the USDA. That has led to the
15 creation of a very productive food system, but at the same
16 time has created a type of agriculture which we now see to
17 be excessively vulnerable, and which is consuming the
18 primary resource base on which it rests.

19 A proper response for the Department at this time
20 would be to in part compensate for past actions by now
21 directing a very significant portion of its research, and
22 especially, education efforts toward the development of
23 agricultural methods based largely on renewable resources.

24 Leaders of the Department should build on the
25 constructive steps already taken in that direction by

1 Leaders of the Department should build on the
2 constructive steps already taken in that direction by
3 speaking out in favor of these methods, and by making
4 sure that its research capability is applied to studies
5 which help improve the effectiveness of natural and organic
6 methods.

7 We feel that the nature of the structure problem
8 as it relates to food and agriculture is so large that
9 it goes well beyond what the Department of Agriculture needs
10 to do. I think it is a question that the public has to
11 address, and will address, and its solutions need to be
12 comprehensive.

13 At Rodale Press we have been addressing this ques-
14 tion for the past six months, and have begun work on what
15 we call "The Cornucopia Plan", which is an attempt to
16 lay some planning goals for the structure of the U. S.
17 food system, especially goals that will help to reduce its
18 vulnerability, and make it more sustainable on a long term
19 basis.

20 I have preliminary draft of that plan which I will
21 leave with you, and it is not ready to be released publicly,
22 but I would very much like to have your input and your
23 actions on it so I will leave that with you.

24 Thank you.

25 SECRETARY BERGLAND: Thank you very much, Mr. Rodale.

1 I will read your proposal with keen interest.

2 Now, Mr. Youngberg. By the way, do you have a
3 statement prepared?

4 MR. YOUNGBERG: Yes, I do.

5 Although the recently completed USDA study of organic
6 farming did not directly address the relationship between
7 organic farming and farm structure, a number of possible
8 implications are suggested. Before outlining these, it is
9 important to note that ones definition of organic farming
10 bears directly on the character.

11 For example, an utterly purist approach to organic
12 farming would probably tend to limit it to relative small
13 farm operations, but if organic farming is defined so as
14 to allow for the limited use of convention production inputs,
15 then organic farming operations would not necessarily appear
16 to be limited by scale.

17 It is also important to note at the outset, that
18 these matters are by no means of strictly academic interest.
19 It has been most apparent in conducting this study, that there
20 is increasing concern about the potential limitations and
21 adverse effects of our U. S. agricultural system, partic-
22 ularly in regard to the intensive and continue production
23 of cash grains, and the extensive, and sometimes excessive,
24 use of agricultural chemicals.

25 Some of the concerns are:

1 Sharply increasing costs and uncertain availability
2 of energy and chemical fertilizers.

3 Steady decline in soil productivity and tilth from
4 excessive soil erosion and loss of soil organic matter.

5 Degredation of the enviornment from erosion and
6 sedimentation, and from pollution of natural waters.

7 Hazards to human and animal health and to food safety
8 from heavy use of pesticides, and

9 Demise of the family farm and localized marketing
10 systems.

11 Consequently, many people believe that a shift to
12 some degree from conventional toward organic farming would
13 alleviate some of these adverse effects.

14 How realistic are such beliefs? Is the shift
15 feasible? The USDA Study found that in many cases organic
16 farming is a viable alternative to conventional agriculture
17 and feasible under a wide range of soil, crop and climatic
18 conditions.

19 Furthermore, it would appear that most of the
20 major barriers to organic farming can be overcome through
21 intensified research and education programs and various
22 changes in farm structure itself.

23 Certain aspects of the present structure of
24 American agriculture impede the development of organic
25 farming. Organic farming depends heavily on the recycling

1 of plant nutrients. However, major increases in the recycling
2 of nutrients in the U.S. may be difficult to achieve, because
3 of the large amounts of grain exported, or concentrated in
4 large scale livestock feeding operations that are far
5 removed from crop production areas.

6 Increases and recycling of nutrients through cash
7 grain farming to increase regional livestock production
8 require major changes in U.S. agriculture.

9 Indeed, future prospects for large scale shifts
10 through organic farming are limited unless substantial
11 changes are brought about in public policy.

12 With these qualifications in mind, let me discuss
13 organic farming as it relates to various aspects of organic
14 farming.

15 In general, a shift toward organic farming would
16 tend to diversify and decentralize U. S. agriculture. A
17 changing commodity mix would be a central feature
18 of this diversification.

19 One would anticipate a greater variety of local-
20 regional crops as well as increased animal production. The
21 exact character of these patterns would vary by region
22 depending upon such factors as climate and soil, as well as
23 consumer needs and interests.

24 Organic farmers rely heavily upon crop rotations,
25 crop residues, animal manures, legumes, green manures, off-

1 farm organic wastes, mechanical cultivation, mineral bearing
2 rocks and aspects of biological pest control to maintain
3 soil productivity and tilth, to supply plant nutrients,
4 and to control insects, weeds and other pests.

5 Given these management and cultural practices,
6 mixed crop-livestock operation are particularly conducive
7 to organic agriculture.

8 The local-regional marketing arrangements typical
9 of organic agriculture would, from the point of view of the
10 consumer, require greater commodity diversity. It is
11 possible that transportation costs would be reduced.

12 As alluded to above, a shift to organic farming
13 would tend to reduce the high degree of specialization,
14 crop mon-cultures and concentrated livestock operations,
15 now found in U. S. agriculture.

16 Consequently, farm supply technologies would be
17 affected. Organic farmers rely very little upon so-called
18 conventional agriculture inputs such as fertilizers and
19 pesticides. Equipment and machinery needs would probably
20 be less severely altered.

21 By producing the bulk of their plant nutrient needs
22 on the farm through legume based rotations and the use
23 of animal manures, organic farmers enjoy a greater measure
24 of control over productive resources than do chemical-
25 intensive farmers. Indeed, achieving a greater measure of

1 self-reliance and personal independence is a major goal
2 of many organic farmers.

3 Greater reliance on small family farms and small
4 rural communities would probably result from the wide-scale
5 adoption of organic farming. Heightened local-regional
6 independence and a greater sense of political community
7 are additional possibilities should organic agriculture ever
8 flourish in the United States.

9 Finally, the USDA study of organic farming showed
10 that the economic return above variable costs for a
11 given acreage was greater for conventional farms, those
12 using continuous corn and soybeans, than for several crop
13 rotations grown organically on the same number of acres.

14 This was largely due to the mix of crops required
15 in the organic system and the large portion of the land that
16 was in the legume crops at any one time.

17 Nevertheless, there are detrimental aspects of
18 conventional production, such as soil erosion and sedimenta-
19 tion, depleted nutrient reserves, water pollution from
20 runoff of fertilizers and pesticides, and possible decline
21 of soil productivity.

22 If the social costs of these factors are considered,
23 then cost comparisons between conventional crop production
24 and organic farming systems may be somewhat different in
25 areas where these problems occur.

1 Thank you.

2 SECRETARY BERGLAND: Thank you very much, Dr.
3 Youngberg.

4 Our tradition is to go through a question and
5 answer session, and this afternoon we will run to 2:35 with
6 this segment. I have a few questions and then I will yield
7 to my colleague.

8 Very quickly, Dr. Willey, what do you think is
9 the proper role of Government in this business of trying to
10 find the proper cost benefit assessments in the use of
11 pesticides in this instance versus the integrated pest
12 management schemes which are available?

13 My point is, a lot of this is going to get sorted
14 out from the marketplace anyhow because of the high rising
15 cost of energy.

16 DR. WILLEY: That is true. In fact, this is
17 not a policy within the control of the USDA. But, I think
18 the control of the price of oil and natural gas over the
19 years, which is now being deregulated, has slowed the
20 adoption of pest management.

21 I think the important first principal for the
22 Government as far as pesticides is to try to analyze what
23 all the factors are that would be potential barriers as
24 far as market incentives go.

25 The best example that comes to my mind is the fact

1 that over the years, in addition to a low price for oil
2 for pesticides, there has been a domination on the supply
3 side of pest control chemical companies. Chemical companies
4 are obviously selling a particular product which is one
5 tactic through the integrated pesticide scheme, and I think
6 the availability of other options to farmers in the sales
7 promotion efforts in the chemical companies has acted as
8 a barrier.

9 The second instance in the larger picture, in
10 those areas where the effects of pesticides are not -- even
11 if you do adopt an integrated pest management scheme some
12 pesticides have hazards. That in those cases the Government
13 has to regulate in the traditional sense to try to rectify
14 costs that are placed on third parties as a result of the
15 use of those pesticides.

16 Work on incentives first, and if incentives don't
17 work use regulation.

18 SECRETARY BERGLAND: Reverend Bergstrom, stewardship
19 is generally regarded as a private matter, and the question
20 is should the Government pre-empt this process in any way?
21 We have under the laws of my State of Minnesota authorities
22 so that my wife and I as owners of a square mile of land
23 are allowed to destroy it.

24 That is man's law. That is the public law. There
25 seems to me to be another law, a higher law, more sound in

1 many ways that says, no, no, no, it should not be permitted.
2 The word "charge" in writing Government policy, how do
3 you reconcile this private rights business?

4 REV. BERGSTROM: Well, I think you probably ask the
5 question of how you live in this world of God and do it
6 fairly and at the same time provide opportunity for growth
7 and development?

8 I guess what I was saying at the end, Mr. Secretary,
9 was, in this process of working out these kinds of places
10 where there are other rights, there are agencies such as
11 the church, and others, who can cooperate with Government.

12 I would say, those again who say there should be
13 separation of church and state, and I say that is true
14 in terms of institutions, but there are also places where
15 there can be interaction. So if people can be taught on the
16 basis of process and information which the Government can
17 provide as well as the church to show that they hurt
18 themselves as well as others by misuse of stewardship, in
19 the long run that can be helpful.

20 I don't think the Government has to feel that they
21 cannot speak to people about the private use of their land.
22 I think it is the way that is done that is more important.

23 SECRETARY BERGLAND: We have tended to use a
24 tariff approach. Mr. Sampson is saying there needs to be
25 another dimension, and I am going to yield to my colleague,

1 Dr. Cutler.

2 DR. CUTLER: You have indicated that conservation
3 practices should be followed and the farmers who feel
4 attached to the land, that is have a tenure that extends
5 beyond their own lifetime, to practice conservation would
6 be land consumers.

7 How do we provide for that feeling of tenure, long-
8 standing tenure or security, and what is the role of the
9 Federal Government in that regard?

10 Most of the efforts that have been begun in this
11 area have been State efforts in agricultural districts,
12 or preferential taxation.

13 Could you define what you think the Department of
14 Agriculture should be doing?

15 MR. SAMPSON: Well, I think there are a couple or
16 three things that we can think about in the conceptual
17 direction if not in the specific issue.

18 The first thing, I think is we have to admit that
19 stewardship is not exercised in a vacuum. Stewardship is
20 exercised in a situation in which each individual person
21 finds himself, and to that degree it is largely individual.

22 I for one, don't see any responsibility for
23 Government to create an individual situation for everyone
24 that is of some uniformity or specific character.

25 We have to realize that the Department of Agriculture's

1 programs do affect that situation, and to the extent that
2 they have in the past encouraged people, or required people
3 for that matter, to use land in short-term ways to meet
4 production goals, when those short-term goals were not wise
5 in use of resource use we have had some anti-reaction.

6 It seems to me the first place we look in the
7 Department itself is how to make those programs constructive
8 toward, or provide incentives toward, resource conservation.

9 The second thing is, I think we need to take a
10 look at this whole idea of tenure from the standpoint of,
11 what can we do as the public to increase rather than decrease
12 the person's feeling that he does, in fact, have some
13 insurance?

14 I could be wrong, but it seems to me our past
15 decade or so of history of trying to solve this problem has
16 relied very heavily on the regulatory and the zoning and
17 other types of things that in a sense seem to remove from
18 the farmer the feeling that he has control over his own
19 destiny.

20 There are a lot of people working today on suggestions
21 that include such things as private trusts and other things
22 that may help a farmer to feel like he has, in fact, more
23 control over his destiny, and I think that is the area we
24 need to now look in.

25 If we could, for instance, through a conservation

1 contract, Secretary Cutler, create the situation where that
2 farmer who wanted to build a pond automatically had a 404
3 permit for that pond, instead of having to go to the Corps
4 of Engineers and other agencies to get it, once he has
5 agreed with the system that that pond is a legitimate need,
6 is it possible not to hassle him from going through that
7 other thing?

8 We have created some situations where farmers are
9 feeling like they are going to be regulated in the sense
10 of creating nonpoint source pollution. Can you as a
11 Department try to work out an arrangement whereby where
12 this person has agreed to and is carrying out a conservation
13 system, he is in a sense granted an automatic white hat
14 from that score?

15 I think in large measure what we need to do is
16 create a system of attitude that tells the person that
17 he is wanted as an individual out there on the land and
18 if he does the right thing, you are going to do what you can
19 from a public policy point of view to help him stay there.

20 Obviously, it seems to me, don't create the economic
21 climate of his life, and you don't create the economic
22 decisions.

23 DR. CUTLER: You are suggesting sort of a one-
24 stop shopping approach, wherein the conservation plan if
25 accepted by the farmer would also be accepted by EPA and the

1 Crops of Engineers as adequate response to the water quality
2 laws as well as the soil water management basis of the
3 Federal cost sharing by USDA.

4 What do you suggest we do with our publications?
5 You say they downplay the land conversion and soil loss
6 issues. Are they too technical or are they simply just not
7 wide enough, or aren't we doing enough in this area?

8 MR. SAMPSON: Two or three things. It seems to me
9 right now that there seems to be a reluctance on the part
10 of the Department. It seems to me to look at the very current
11 break-even trends.

12 I find it a disturbing tendency to look at the
13 trends of 1914 to 1964 and 1974 and extend them. I could
14 be dead wrong, but I have the basic gut feeling that we
15 have seen some things change direction in the last decade
16 as regards resource use, as regards population dispersion
17 in this country, and as regards a great many things.

18 I think we need to do two things. One, I think
19 we need to look very hard at the very latest data that we
20 have and think about in terms of what it is telling us at
21 the very last moment. And, secondly, I think you have the
22 only mandate in this town to develop the kind of data that
23 can improve our ability to keep track of what is happening
24 at the moment.

25 I see us -- and this is personal and has every

1 opportunity to be in error -- but I see us as going through
2 a period of transition, and in that period of transition
3 in terms of land use and implications of land to our whole
4 production system, I think it is deadly serious that we
5 be as on top of the data and trends occurring to us right
6 now that we can, because to the extent that they have
7 changed direction, looking at the historic data and under-
8 standing it gets us farther from reality.

9 DR. CUTLER: I would like to ask Mr. Rodale and also
10 Dr. Youngberg and Dr. Willey what present traditional lines
11 of USDA research and possibly extension, they would propose
12 to reduce in order to provide increase of services for the
13 kinds of programs they have asked to be expanded on integrated
14 pest management, on organic farming and things like that?

15 The things that Secretary Bergland and I face is
16 is the anticipation that the budget for agricultural research
17 will not be expanded in the years ahead, and we need to know
18 what you think we ought to cut as well as expand.

19 MR. RODALE: I think we need a growing awareness that
20 it is wise to put some limits on the intrusions of technology
21 into basic human concerns.

22 I am not saying that we should go through the
23 research that is done by the Department of Agriculture and
24 say, this is too chemical or this is too technical and
25 shouldn't be done.

1 But I think what we are seeing now in the
2 basic, fundamental change that is going on in the whole
3 industrial world is that our infatuation -- maybe that is not
4 the right word -- but the confidence we had that there can
5 be a technical fix to every problem is called into question.

6 There is a new concept of scale that is coming in.
7 We have seen it with our automobiles. The cars that are
8 too large and use too much gasoline, and we know with
9 airplanes, the supersonic transports, the faster it goes
10 the more energy it uses.

11 The same logic applies to farming. And, to farming
12 systems. Now, I am not really against large farms. I think
13 there will always be large farms. I think I am partial
14 to small farms, but it is -- there are probably things wrong
15 with small farms too. But, I think if the Department of
16 agriculture would look at its research and say, maybe a
17 harvesting machine should only be so large, or there should
18 be a limit of weight and horsepower if we are investing money
19 in developing machines, tractors, or whatever systems, they
20 get very large. Let's put a limit on that.

21 So, to me, that makes a lot of sense. Not only
22 largeness -- okay, let's say largeness, energy intensiveness,
23 and maybe artificiality. There are certain system that
24 are going into -- that are becoming too chemical or too
25 dependent on synthetic chemicals, so I think the payoff would

1 be a positive payoff both to the Government, and especially
2 to the farmers and consumers if we did begin to perceive
3 very clearly the limits of technological development.

4 DR. CUTLER: Thank you. Dr. Youngberg.

5 DR. YOUNGBERG: I think that is an excellent question
6 and a difficult one to answer. I would offer this, at least
7 for your thinking.

8 I am wondering if it would take a tremendous
9 increase in the absolute sense in terms of funding to do
10 this kind of organic research? What I think may be useful
11 in this regard is to attempt, more than in the past,
12 integrate much of the research that is going on, and that
13 doesn't only relate to organic farming.

14 We see the need for a wholistic integrated research
15 program in organic farming. There are many programs. The
16 IBM, the current research in tillage practices, organic
17 waste practices, and I am sure others which are perhaps done
18 in a piecemeal and fragmentary way, and may not always
19 relate very well to extension efforts.

20 But if there could be improved coordination into
21 these things, it may not take as much additional funding
22 as we think.

23 DR. CUTLER: You are on the Users Advisory Board,
24 so you have been exposed to the Department's research
25 extension programs in some depth, and have some feel for the

1 size of the budget and how it is spent.

2 Do you have any suggestions on -- along these lines?

3 DR. WILLEY: The first thing that you are aware of
4 is, I am sure, that the Advisory Board has not been able
5 to agree among itself on the cuts to be made.

6 I have advocated at Board Meetings, and continue
7 to advocate in order to try to determine where priorities
8 ought to be set within the research and extension budget,
9 one has to start with what one's objectives are.

10 I don't think they are truly spelled out, and
11 historically short-term production as much as anything has
12 been the goal of Research and Extension programs in the USDA.
13 And, production is important and will always be important.

14 I would like to see that the criteria for research
15 programs be sustainable for production that can continue
16 over many years, rather than reap short-term benefits.

17 I think that criterion would apply to the existing
18 portfolio of research programs in USDA. You will find
19 plenty of places to make cuts.

20 I think the second thing that is important is for
21 you to understand the kind of research going on in the
22 private sector and look at those areas in which concentrations
23 particularly on the supplying industry gives one some
24 reason to believe that that research is going to continue
25 anyway, and I feel USDA should not be involved in duplicating

1 what the private sector does.

2 You will find many examples where USDAs role ought to
3 be moved on to more sustainable types of organizations.

4 By the way, many of the types of fertilization and
5 pest controls, I don't consider to be sustainable. They
6 create problems in the long term.

7 I think USDA ought to be aware of that and allocate
8 its research accordingly.

9 SECRETARY BERGLAND: Thank you very much.

10 Howard?

11 MR. HJORT: I am going to try to have a general
12 theme in the questions and then come to a specific question
13 for most of you, at least if we have time.

14 The first specific question. How many of you
15 believe that we are maintaining a natural resource quality?
16 Are we depleting our natural resource base at the present
17 time? How many believe we are depleting?

18 All right, so my general question is, what should
19 we do as a society to reverse that trend, and to see to it
20 that the subsequent generation is in a better position than
21 we? And, that is kind of my general approach.

22 Dr. Willey, I will start with you, and since you
23 mentioned water, and was one of the few that mentioned
24 water in the West and in the Southwest, where we are depleting
25 our water resource base, our groundwater base, what is the

1 role of Government there. Should we let that take its
2 course and let those communities have to shift to an alterna-
3 tive agricultural base away from irrigation and so on,
4 or is there a role for Government, and if so, what?

5 DR. WILLEY: I think the first thing that the U.S.
6 Government can do is to make sure that its not giving with
7 one hand and taking with another.

8 I think you can find examples of that in which some
9 policies of USDA will provide incentives for growers to do
10 one thing, and other policies that will provide incentives
11 for another.

12 We have got to remove the contradictions. I suppose
13 the best example are some of the commodity support programs
14 which give growers an incentive to maximize production,
15 which in many cases will conflict with long term resource
16 objectives, certainly in the high plains of Texas and other
17 areas where some support crops have been developed over the
18 years on the basis of groundwater, and the strains of crops
19 that are used in developing those areas, were strains of
20 crops which rely on an accompanying amount of water has
21 aggravated the groundwater overdraft problem.

22 The Department of Interior is also at fault in its
23 programs too. The first thing is to try to present an
24 incentive for growers to pursue agriculture in such a way
25 that resources aren't depleted, and the way to do that is

1 not to have conflicting signals.

2 If we look now and we have incentives for soil
3 conservations, but in many cases I believe those are washed
4 out by other incentives on the commodity side, so I don't
5 think we can conclude that incentives haven't worked.

6 I think we can conclude that we haven't given a
7 consistent set of signals.

8 MR. HJORT: Is that latter because of market forces?
9 It wasn't economic for those guys to put those wells in
10 down there, and then they put too many and it was economic
11 for them to grow those crops they did.

12 Now, it is starting to go the other way. The
13 economic forces will take care of it. It is a fairly brutal
14 way for it to take care of it.

15 Specifically, do you think that there should be
16 a Federal law that would limit the number of tubal oils
17 that can be put in per unit of space?

18 DR. WILLEY: The whole question of groundwater
19 management, you know that is entirely controversial and
20 virtually unregulated in most areas.

21 I wouldn't suggest to the Government that they
22 should try to regulate it.

23 MR. HJORT: But anybody --

24 DR. WILLEY: I don't think --

25 MR. HJORT: What about the states?

DR. WILLEY: The ultimate responsibility will fall on the states, or a combination of the states and groundwater basin authorities yet to be established in most areas.

The reason those overdrafts have occurred is that water has been basically a free resource. It is because it has not been regulated and there hasn't been a marketplace.

One other point. I think the overuse of those groundwater aquifers has been aggravated by the introduction of species of crops which require a lot of utilization.

I think USDA can do something about that.

It may be in the long run, given particularly that it is going to take so many years to recharge the groundwater aquifers that certain types of farming would be the solution, at least in the short term.

But, in some cases it will take hundreds of years.

MR. HJORT: Dr. Bergstrom, how do we reverse this trend we have underway, depleting our national resource base?

REV. BERGSTROM: My answer would sound very simplistic compared to the other three gentlemen on the panel. They obviously have more experience with the specifics you have been directing in your questions.

But, I would at least respond in a general way. Coming from an organization called "The Church" which has often been told, "you oughtn't to be meddling in that", I think the Government has a place to try even by regulations

1 once in a while to reverse trends, and obviously that is
2 not going to be popular in specific areas. Different ventures
3 and steps will be strongly critized, but if you can get
4 people to feel they are involved in that and they are
5 still owning their property and particiating, there will be
6 an unending, continual process.

7 MR. HJORT: Would you -- I guess we had better move
8 on or we will run out of time.

9 Mr. Sampson, I have asked the general question,
10 thinking of it more in terms of land, but I did have a
11 specific that I wanted to ask you.

12 You made a comment tenants, or owners, and so on.
13 I want to turn that around another way. Do you detect that
14 there is a significant difference in appreciation of
15 conservation by age? The young farmers have less apprecia-
16 tion for the conservation -- or whatever you want to call it,
17 than the older ones?

18 MR. SAMPSON: If I detect a difference, I suspect
19 it is the reverse of what you just said. Going back, par-
20 ticularly in the areas where we have tried to put together
21 farmland retention programs, the strong supporters there
22 have been people like the Young Farmer's Organizations of
23 the farm groups.

24 The people who see -- the 35-year old sees himself
25 as trying to stay in business until he is 60, has a very

1 different attitude then the fellow who is 54 to 56 who
2 sees that his sons and daughters have gone to college and
3 seem to be perfectly happy not working as hard as they
4 had to at home, and has very little intention of coming back
5 to the farm.

6 He begins to take a look at that land in terms of
7 its value as sale property, and what that sale property can
8 do in terms of his own personal retirement, and to those
9 people who have worked a lifetime and lived for and in the
10 process and are often darn poor, the last remaining bastion
11 of value they have to show for their work is that land
12 value.

13 Consequently, they seem to be getting to look at
14 it as a commodity at that point.

15 Again, I don't know that we have good information
16 on this. That bothers me a little bit. With 50 percent
17 of our farmland currently being rented, as compared to the
18 other half being owned by the person who is out farming it,
19 it seems to me relatively easy to start to get some insights
20 as to this. Some on the effects on the land that we can
21 detect.

22 I think it is there to get, and I am encouraging
23 you as the Department to see if we can't get a little more
24 of that, because I don't think that there is nearly enough.

25 MR. HJORT: Did I gather from your statement you

1 would favor tightening the screw, so to speak, that if
2 people are going to be eligible for benefits, that there
3 would be a conformance with a plan or a requirement that they
4 conform to certain basic standards with respect to use of
5 the natural resources?

6 MR. SAMPSON: I don't think I would go that far at
7 this point. I don't think that I can pick up around the
8 country any support for the notion of compliance per se.

9 You can discuss it in academic terms, but when you
10 get out and start to discuss it in terms of real people
11 they see it as the Department imposing another regulatory
12 lid on them.

13 I think that is one where we are clearly going to
14 have to give incentive signals to the people who will do so
15 voluntarily.

16 I think the economic implications of either one,
17 if you consider them in the neutral economic sense are similar,
18 but the perceptions of people are so different, that I think
19 we have to think in terms of economics and bonus incentives.

20 MR. HJORT: What if we don't have money for incentives?
21 What if the people of the United States decide that we need
22 to have balanced budgets, and we have the choice then
23 between regulation or individual -- an education program
24 with individuals, but incentives are out?

25 MR. SAMPSON: I realize where your question is

1 coming from, and I am not ready at this point, I think, to
2 admit that we don't have money enough to do what we are
3 talking about.

4 It seems to me far more logical, when those 34
5 programs you have in this Department today that affect
6 private land owners, are running somewhere between a-quarter
7 and 35 percent of what this Federal Government spends, and
8 when we take a look at the public's awareness that something
9 is wrong with the resource base, I am simply not ready
10 to roll over and play dead yet.

11 You could double and triple some of the incentive
12 programs that you have in place right now, and to the folks
13 who have been fighting to get that last million dollars for
14 25 years, that seems like a tremendous amount of money.

15 In comparison to what we are doing today in this
16 national economy that is going for sheer consumption, I think
17 we should build that case and fight for it. I am clearly
18 not ready to take that option.

19 MR. HJORT: Just a specific then. Would you favor
20 requiring those who accept incentives and Federal assistance
21 to pay it back when they tear out the stuff that was paid
22 for?

23 MR. SAMPSON: Yes. I think the programs that have
24 long-term contracts with payback provisions have provided
25 an incentive to do something.

1 MR. HJORT: Mr. Rodale, would you favor a tax on
2 agriculture products that would earmarked for insuring the
3 maintainance of our resource base?

4 MR. RODALE: No. Of course, I have not had a chance
5 to really think it true, but my initial response is that that
6 would be counterproductive.

7 It would create a resentment rather than a support
8 for the idea of protecting resources. You know, this question
9 is so tremendously important. We are talking, really, about
10 the survival of the United States, because the soil -- the
11 fact that the United States has so much rich soil located
12 in such wonderful climatic regions is the foundation for the
13 basis of national strength.

14 We are clearly not respecting that source of our
15 strength and we are spoiling it, and it has to be approached
16 for all angles.

17 You people have to do what needs to be done from
18 the Government point of view, and the public has to do a
19 lot too. I think there is a very large moral dimension here
20 and that is the thing that interests me.

21 I feel that all of us have to begin acting as if
22 we are the agents of generations that aren't born yet, and
23 when you start thinking that way it makes into a moral,
24 almost a religious, issue.

25 I think -- I am not by nature a religious person,

1 but I think we are probably going to get a whole lot more
2 religion on this issue before not too long.

3 MR.HJORT: Which way does that lead you in the way
4 of a solution? Laws and regulations. The laws of the land--

5 MR. RODALE: Speaking personally, I am not favoring
6 laws and regulations as much as preaching. I think you have
7 to just reach the hearts and minds.

8 MR. HJORT: Education?

9 MR. RODALE: Not education in the pure sense, but
10 really missionary, one on one. Just missionary work.

11 REV. BERGSTROM: I have to break in. There are two
12 good religious terms, law and gospel, that will have to be
13 used.

14 MR. HJORT: Mr. Youngberg, do you foresee in a decade
15 hence or two a noticeable reversal from what we have been
16 observing for decades, and that being increased -- an increas-
17 ing trend toward specialization to where we all see a
18 noticeable reversal to diversification, and the more self-
19 contained farming unit?

20 MR. YOUNGBERG: It is always difficult to separate
21 your hopes from the facts of the matter in this kind of
22 an insstance.

23 I would think that there are indicators, Dr. Hjort,
24 that that will be the case. There are some indicators that
25 that is the direction we will have to move into, at least in

1 part. Perhaps not a wholesale change, but a move in that
2 direction.

3 Many, many more farmers are talking about this it
4 seems to me. It is happening to some extent right now.

5 MR. HJORT: That, of course, has major implication
6 for all of the other things we have talked about. That
7 is a possible solution. We do have a self-contained unit
8 where the fuel is produced that the operation needs either
9 for production or what. The processing facilities that that
10 operation would have.

11 The fertilizer is produced on the unit, or at least
12 one is minimizing the need for energy from external sources.
13 You really get the impression that this is taking ahold
14 rather quickly, and it is going to be something that will be
15 noticeable soon?

16 MR. YOUNGBERG: I think there is burdgeoning interest,
17 yes. I am not quite sure quite how to characterize it,
18 but I think not only in the farm sector but in the urban
19 sector as well there is tremendous interest in these matters
20 we have been talking about. I think so.

21 MR. SAMPSON: If I can say something briefly?
22 I think a better word than "self-contained" is "self-reliant",
23 and I believe there are an awful lot of producers around
24 the country who wish to feel more self-reliant. More able
25 to cope with what they see as a lot of uncertainties, too

1 many of which are controlled by people who are too far away
2 and too far out of control.

3 I think while self-containment on each unit is
4 probably not what we are after, we are not ready to return
5 to subsistence farming. We are after ways in which self-
6 reliance and self-confidence in ones own abilities can be
7 improved.

8 When you do that, that relates to the feeling about
9 tenure and the land.

10 DR. WILLEY: May I comment on that? In look at the
11 statistics on farms, I just don't read any evidence to date
12 that there is a reversal towards specialization and increased
13 size on farms.

14 I guess my view is that it is very important to
15 educate people, and I think there is a certain movement in
16 this country to be aware of the benefits of diversification
17 in small farms.

18 But, I think, once again you have to go back into
19 history and understand the policies that have traditionally
20 regulated farms and given farms incentives to get big. There
21 is a cause and effect that we see today. A result of several
22 decades of policy, and that until those policies are changed
23 in a dramatic way towards new goals, I see a serious obstacle
24 to diversification, size change.

25 MR. HJORT: We not only thought that water was free,

1 we thought that energy was also. So, what we are talking
2 about, I think, is a modification for the unit to accommodate
3 to that.

4 SECRETARY BERGLAND: Gentleman, time is unfortunately
5 flying by. Just a general observation.

6 During my lifetime we invented and applied almost
7 all of modern technology in agriculture. Resulting increases
8 in yields have led to public programs which encourage large
9 areas of cropland to be put into conservation practices of
10 one kind or another, and by different definitions they have
11 all been designed to conserve soil for posterity.

12 During my lifetime we have continued to pave over
13 about 3 million acres of cropland each year, going to nonfarm
14 uses. Now, we have not setaside program in place for 1980.
15 We have a third of our production that will be exported, and
16 the world's food requirements will probably double in the
17 next 50 years, and as matters are going we will keep on paving
18 over 3 million acres of cropland each year in the United
19 States.

20 Coupled with economic problems -- I was in Iowa,
21 where many farm families, because of economic circumstances,
22 in the cattle business were forced to sell off the cattle
23 and put their land into corn and soybeans, which was a
24 disaster. They are trapped and can't get out.

25 So, we need to look very carefully at a long-range

1 of matters, including highest and best land use, including
2 ways of helping persons convert from an economic plan they
3 know makes no sense, but they have no choice because of
4 economic forces.

5 We don't have time to examine all of those today,
6 but those were the kinds of things we would like you to
7 look at and prepare for a year hence.

8 Thank you very much.

9 (Applause)

10 SECRETARY BERGLAND: I have one significant change
11 in the agenda. Mr. James Sanford who is President of the
12 Southern Cotton Growers, Incorporated from Alabama has been
13 granted five minutes time in which to present his views.

14 Mr. Sanford.

15 MR. SANFORD: Thank you, Secretary Bergland, Dr.
16 Hjort, Secretary Cutler.

17 I am Jimmy Sanford and I wish to thank you and the
18 Department for this opportunity to present the views of the
19 Southern Cotton Growers, Inc. on the Structure of American
20 Agriculture.

21 History has proven that American agriculture is
22 and has been the most efficient in the world and has made
23 the American consumer, American business and world trade
24 the major beneficiary of the U. S. farmers unmatched and
25 unparalled farm productive capacity.

1 One of the major reasons for the American farmers
2 unexcelled production ability has been his freedom to move
3 from one crop to another, from one size to another, and from
4 one type of operational organization to another. This type
5 of structure has been allowed for two primary reasons.

6 First, our nation's founding fathers provided
7 this freedom which is so necessary in America to operate
8 within a political structure which allows the freedom of
9 choice by individuals.

10 Second, American agriculture is the only pure
11 competitive industry in existence in America today. These
12 two principles must be maintained at all costs.

13 Mr. Secretary, we oppose any extension of Government
14 restrictions or regulations on the ownership of assets and
15 chosen method of operation by U. S. farmers.

16 The Southeast is the area of historically small
17 farms and remains so even today compared with other farming
18 sections of our country, whether individual partnership, or
19 corporately structured. However, if we in the Southeast
20 had been limited by whatever means in our ability to freely
21 grow and change our operations, there would be many less
22 productive farms in the Southeast.

23 Increase in size during the past years in the
24 Southeast has enabled our farmers to increase production, gross
25 and net income, yet we still fall far behind on the national

1 average. No farm operator, regardless of his size or
2 structure, will long remain if his ability to produce net
3 profit is limited.

4 Based upon the information I have read, it seems
5 that Federal policy and regulations being promulgated by
6 bureaucracies are moving towards programs and regulations
7 which would severally limit the American farmers ability to
8 produce effectively and profitably which has over the years
9 given the American consumer the cheapest food and fibre costs
10 in the world and has allowed those same consumers to pursue
11 other endeavors of employment.

12 To us, it seems a dangerous trend. A philosophy
13 which, if materialized will lead commercial agriculture
14 production in this nation to higher food and fibre prices
15 and severely limit farm production efficiency and capacity.

16 The problems facing American agriculture is not its
17 structure, but rather Federal farm policies promulgated by
18 bureaucracy and implemented on the basis of cheap farm
19 prices and world political considerations. These policies
20 are making American farms subservient to these national
21 goals and objectives which entirely are not imposed through
22 the elected officials of our government.

23 In reading the Structure Issues of American Agri-
24 culture and Another Revolution in U. S. Farming, both
25 published by the U. S. Department of Agriculture and prepared

1 by staff economists, I find some good theories and some good
2 hypotheses supported by some informative and historical data.

3 However, I am appalled by the erroneous implied
4 thesis which your staff has put forth in these two publica-
5 tions. Size method of operation and technology are not the
6 causes, only some symptoms.

7 As economists, if these people had stuck strictly
8 to their discipline of economics, those two publications would
9 have had a different thesis than the ones which they portray.

10 In deference to time, I will not follow the
11 prepared testimony as presented.

12 Mr. Secretary I would like to refer to Robert
13 Malthus, Reverend Thomas Robert Malthus and David Ricardo's
14 theory of the "law of diminshing returns", which is cited
15 on pages three and four.

16 In the two USDA publications mentioned herewithin,
17 several of the contributing authors are referred to as
18 economists. Some of these have gone far beyond the
19 realm of their discipline in their presentation.

20 For example, in the paper entitled "The Structure
21 of Agriculture: An overview of the Issue", J. B. Penn
22 refers to the "beginning of the farm problem". He states
23 a thesis that technology has reduced the need for people in
24 farming and their numbers have declined significantly, and
25 this creates the trend to larger and larger farms which are

1 usually corporate in entity.

2 He further states that this technology which provided
3 the mechanical cotton harvester transformed agriculture in
4 the deep South producing one of the greatest population
5 shifts this country has ever experienced. He noted that
6 thousands of Blacks migrated from farms in the South to
7 urban centers of the North.

8 Mr. Penn credits this exodus on technological
9 **advances** and, in particular, the introduction of the
10 mechanical cotton harvester.

11 However, the mechanical cotton harvester was provided
12 by technology in 1936 and was commercially available since
13 that date. Furthermore, it was not commercially accepted and
14 adopted until the middle of the 1960's to which Mr. Penn
15 references.

16 Why did the cotton industry wait so long to adopt a
17 technological advance such as the mechanical cotton harvester?
18 Why did the high plains area of Texas adopt mechanical
19 harvesting more than a decade ahead of the South? The
20 exodus of the Blacks is more closely correlated to the
21 enactment of minimum wage for farm labor and other socio-
22 economic programs which were introduced in the 1960's than the
23 correlation between the mechanical harvest and the technology.

24 The farm labor minimum wage ushered in the mechanical
25 cotton picker which was needed to replace the labor which was

1 leaving for urban centers. Thus the acceptance of the
2 mechanical cotton harvester in the South was a symptom or
3 a result and not a cause.

4 In the same presentation, J. B. Penn suggests that
5 there are many sinister forces which singly and together
6 determines farm sizes and structure and will result, if
7 left unchecked, in fewer and fewer farms of larger and larger
8 size.

9 He addresses the question, "What do we lose if it
10 does occur". He answers his question by inciting fear by
11 stating that the trend is practically irreversible now and
12 is likely the last time society will have the opportunity
13 to make the choice.

14 Is this "economist" disguised as a reincarnated
15 Malthus overstepping the boundary lines of his discipline
16 of economics.

17 Mr. Secretary, I would like to cite on page seven,
18 in our annual meeting in January, this year our Board adopted
19 a resolution which states:

20 We oppose any type extension of Government restric-
21 tions or restriction on ownership of assets.

22 I would like to thank you, Mr. Secretary for this
23 opportunity to present our views. I will be most happy to
24 discuss or answer any questions.

25 SECRETARY BERGLAND: Thank you very much Mr. Sanford.

1 I have one question. You made a good case for
2 free enterprise and complete unfettered competition. I
3 presume you are thinking in a global sense?

4 MR. SANFORD: Yes.

5 SECRETARY BERGLAND: Because it is a global market
6 we are dealing with, so that means an unfettered trade, both
7 exports and imports.

8 MR. SANFORD: Yes, sir. From the standpoint of
9 competition you are referring to peer competition. I was
10 referring to American agriculture.

11 SECRETARY BERGLAND: That means only unlimited
12 exports would control imports?

13 MR. SANFORD: That means that a farmer has free
14 access to the export market within the pervue of the
15 Government, and that also applies within --

16 SECRETARY BERGLAND: Would you extend that same
17 basic freedom to foreign investors in U. S. farmland?

18 MR. SANFORD: I personally believe that foreigners --
19 I mean foreigners investing in farmland should be registered,
20 but I feel that they should have a right to invest in
21 America.

22 SECRETARY BERGLAND: How do you think Federal sub-
23 sidies should be directed in agriculture?

24 MR. SANFORD: I think that the Government from a
25 national standpoint has an obligation to provide disaster

1 help on an area-wide basis. I think taxpayers funds should
2 be available for research and development through the land
3 grant college system such as Title 14 of the 1977 Congressional
4 Act suggests, and these should be the subsidies that
5 American agriculture should get.

6 SECRETARY BERGLAND: So Government should serve as
7 a lifenet, complete, free, unfettered and price should not
8 be the only rule? There should be some involvement in case
9 of natural disaster?

10 MR. SANFORD: Certainly, yes, sir.

11 SECRETARY BERGLAND: Should that subsidy extend
12 to the big as well as the small farms?

13 MR. SANFORD: Yes, sir.

14 SECRETARY BERGLAND: Thank you very much, Mr.
15 Sanford.

16 Our next panel will discuss the question of The
17 Role of Government: Regulation and Risk Management in
18 Agriculture, and it is composed of Ms. Gail McPherson from
19 New Park, Pennsylvania, representing American Agri-Women.

20 Mr. Clarence D. Palmby representing the Chamber
21 of Commerce of the United States.

22 Mr. Jack Felgenhauer, representing the National
23 Association of Wheat Growers.

24 Mr. William Mullins, representing the National
25 Corn Growers Association.

1 Dr. Luther Tweeten from the Oklahoma State
2 University.

3 And, Mrs. Nita Gibson from Seminole, Texas,
4 representing Women Involved in Farm Economics, sometimes
5 known as WIFE.

6 Ladies and gentlemen, we appreciate your coming
7 today, and we will start off with Ms. McPherson.

8 MS. MCPHERSON: Thank you, Mr. Secretary for this
9 opportunity to present the views of American Agri-Women
10 concerning government regulations and risk taking as it
11 relates to the structure of agriculture.

12 First, let us go to some definitions of the
13 term "structure" which has been such a valuable word in
14 getting these hearings well publicized and so well attended,
15 that as I understand, 10,000 pages of testimony have been
16 filled to date.

17 Aside from a building, structure means a complex
18 system considered from the point of view of the whole, not
19 just parts of the whole. Structure is anything composed
20 of parts arranged so as to present organization. And structure
21 signifies the arrangement and functional unity of all its
22 parts.

23 If there were anything significantly wrong with our
24 structure of agriculture, how would it be possible that
25 America has been propelled into the position of World Super

1 Power by a mere two percent of its population; that
2 Americans spend only 14 percent of their disposal income for
3 food, less than anywhere else in the world; that American
4 farmers have produced, as well, a \$15 billion positive food
5 trade balance; and that American consumers have at their
6 disposal the most bountiful, highest quality food and
7 fiber in the world?

8 At our farm, when something isn't broken, we don't
9 try to fix it.

10 These hearings have been focusing on the problems
11 of ownership, production, distribution and consumption of
12 agricultural products. If there were any problems in any
13 place in the arrangement and functional unity of ownership,
14 production, distribution and consumption of these products,
15 it would be beyond the scope of representative democracy
16 to change this complex system without annihilating the free
17 enterprise system that has made America great and given U.S.
18 agriculture the ability to achieve its present structure.

19 Farmers don't need to be changed to better fit
20 into a proscribed structure of anyone else's with our past
21 record. We also don't need to be put on the defensive by
22 our Government.

23 We believe that any structural problems that may
24 exist in relation to agriculture and the free enterprise
25 system emanate from our Government, which has allowed

1 zealous regulators to tamper with the rights and abilities
2 of farmers to function in the role they know best.

3 Regulations are turning dirt farmers into paperwork
4 farmers, putting the most productive segment of the American
5 economy on the defensive against adversary agencies, whose
6 intentions, although well meaning, are throwing a monkey
7 wrench into the finely tuned timing of the great agriculture
8 machine which feeds this country and much of the world, while
9 at the same time cutting into already narrow profit margins.

10 It is within the power of you who work within this
11 Government to change the Governmental structure which is so
12 adversely affecting the ownership, production, distribution,
13 consumption of agriculture products by standing up for
14 farmers who are beseiged by a miriad of regulations.

15 I am going to have to skip many of my examples here,
16 but I do refer to the Department of Labor as it affects
17 agriculture, to OSHA to FLCRA, and I ask where is the USDA
18 when we need help? To the Department of Interior, to the
19 Bureau of Land Management, to many of the additional costs
20 which Government regulations have imposed upon us, and
21 the entire food system.

22 In 1977, food-related bills accounted for 50
23 percent of all legislation introduced into Congress, most
24 of which called for more rather than less legislation.

25 There are 100 Federal laws that apply to the

1 production of one can of tomato soup. Is the USDA calling
2 a halt to all of this? No. And, this summer it is going
3 to cut peaches, just looking for split pits, or some kind
4 of internal damage, even though the growers have proved this
5 procedure is illegal because no hearings were held, because
6 the farmer cannot pass along his added cost, he becomes
7 the ultimate consumer, with ever-increasing pressure from
8 bureaucratic regulatory agencies that are forcing his
9 costs ever higher.

10 You can loan us all of the money in the world, but
11 what good is it if we can't pay it back? And, when
12 we can't, what will become of our farms?

13 To date, bureaucrats and regulators haven't produced
14 one drop of milk, one piece of fruit, one bite of beef, one
15 bean or pea, one bushel of grain and you can imagine our
16 frustration when they say, "We are the Government. We have
17 come to help".

18 We can't afford this help. We are being strangled
19 by good intentions.

20 It was the agriculture community that sponsored the
21 Forum on Regulations, and it is significant to observe that
22 when the buck stops with you, you are the one to try to
23 change the way people think.

24 We believe that were everyone made fully aware of
25 the burden of all regulations affecting its industry, any

1 industry, and thereafter, allowed to assess the complex
2 interrelationships of these regulations and their cumulative
3 effects on the industry, then changes would surely follow.

4 Until that is accomplished, only agriculture
5 shoulders the full burden, the full risk for the price of
6 regulation meant to take away all risk from the balance of
7 society and itself.

8 If it cannot, then its structure of ownership,
9 production, distribution and consumption is at stake, as is
10 the entire economic structure of America it upholds.

11 All the farmers wants to do is produce food, and
12 dirt farmers are better than paperwork farmers.

13 I would refer the structure of agriculture as it
14 relates to Government regulations is very much like an
15 unpruned tree. It is supporting the dead, weak, nuisance
16 limbs that do not produce fruit, and often interfere with
17 the healthy ones. Uncontrolled it will continue to grow
18 rampant, wild, with its fruit becoming runt, scabby,
19 insect infested, unfit for human consumption.

20 I would suggest that the Government could take a
21 lesson from orchardists who prune their trees annually, and
22 I describe how that will be done.

23 Thank you, sir.

24 SECRETARY BERGLAND: Thank you very much, Ms.

25 McPherson.

1 Mr. Palmby.

2 MR. PALMBY: Mr. Secretary, Mr. Hjort, I shall make
3 my remarks very brief, and I wish to depart from my text
4 and only wish to emphasize one general comment and then
5 one specific.

6 I specifically want to comment on behalf of the
7 agricultlure business interests who are members of the U.S.
8 Chamber, and to best describe those interests, I would like
9 to share the observation, if I may, Mr. Secretary, that they
10 are the businesses, using my terminology, that contribute
11 really three things to agriculture.

12 One, they contribute time, utility, meaning risk
13 management, transportation and all that that means, and
14 finally, form utility which best describes those members
15 of the Chamber that are involved in processing and changing
16 the form of that culture, Commodity.

17 The Chamber has long had a policy position which
18 I think maybe reflects an overused term and I want to read
19 that and then comment on it generally.

20 That is, that the Government as well as private
21 industry must guard against the encroachment on our com-
22 petitive enterprise economy, and using my terms as that
23 relates to risk management in agriculture.

24 We detect, particularly in the legislation introduced,
25 some of it ocasionaly being enacted, that does change the

1 relationship between commodities, or between the finished
2 products derived from those products.

3 Everytime that is done, that does impact not only
4 the cost of investments going into that food and fiber chain,
5 but also the risk.

6 So, I share with you that every intervention
7 legislative, or by Executive action, does impact upon the
8 cost of capital investments that we in our Chamber membership
9 need to hold the state current to supply the food and fiber,
10 and then specifically I do want to take one minute to
11 illustrate what I do think is Government intervention. And,
12 what I think is an impractical and in a costly manner, and
13 which will prove if carried to its ultimate in continued
14 and future legislation, to be not in the best interest of
15 the food chain.

16 That is the concept of tying commodity loans and
17 target prices to cost of production averages. That, because
18 it not only distorts the efficient allocation of resources,
19 it is alien to what our system has been today in farm
20 programming, and it ignores the application of improved
21 technology.

22 Specifically, and I know I can upset commodity
23 groups by saying this, that the present efficient payments
24 made to grains and not corn best illustrates what I think
25 is a distortion of the system, in that it contradicts what

1 I think should be a market orientation factor in application
2 of resources.

3 Thank you.

4 SECRETARY BERGLAND: Thank you very much, Mr. Palmby.

5 Mr. Felgenhauer.

6 MR. FELGENHAUER: Mr. Secretary and Hjort, on behalf
7 of the National Association of Wheat Growers, I would like
8 to thank you for the opportunity today of expressing our
9 views on the structure of American agriculture.

10 Although the NAWG fully supports the program concepts
11 now in effect for wheat and other field crops, the improper
12 adjustment of the support levels contained in the program
13 has caused one of the most severe income crises in the history
14 of American agriculture. The family farm structure is most
15 threatened by misapplication of farm programs than any other
16 economic factor.

17 I might then ask why is the Department of Agriculture
18 itself so structurally unsound that it would disregard
19 authorities already delegated to it by Congress in setting
20 "safety net" prices for farm commodities?

21 All the American farmer really wants is insurance
22 against catastrophic market declines caused by weather,
23 international politics, or other unexpected events. We
24 consider the present market to be pretty catastrophic for
25 the wheat farmer. He is going to lose about \$1.00 per bushel

1 when he goes to market his crop this year.

2 This is because the costs of his inputs has increased
3 by 25 percent over last year, and yet prices have declined
4 by over 45 cents since the embargo.

5 Mr. Secretary, it would be less costly to use the
6 programs you presently have to work with, than to have to
7 run these structure hearings all across the country in an
8 attempt to change them.

9 It seems that the Department of Agriculture gives
10 more credence to consumers' complaints than it does to the
11 American farmer. This perspective on food production has
12 resulted in the concentration of farmland in fewer and fewer
13 hands.

14 Farmers have had to drastically decrease per-unit
15 costs in order to produce cheap food for the American
16 consumer, and in doing so, they have had to increase the size
17 of their farms.

18 This situation has eroded the substance of rural
19 America, both in human and physical resources, and in the
20 destruction of the family farm.

21 We feel that the farm economy has been unfairly
22 tampered with in relation to other sectors of the American
23 economy. The role of Government has been more strongly
24 played in controlling farm income than in controlling other
25 types of business income, such as food processing, fast food

1 chains and retailing.

2 The NAWG does not believe that the Government should
3 guarantee farmers a fixed profit, but that there should be
4 a reasonable relationship between a safety net price and
5 the cost of production.

6 Currently the NAWG projects the national average
7 cost of production per bushel of wheat for 1980 at \$4.59.
8 With the loan level now set at \$2.50, the target price of
9 \$3.63, and national average prices around \$3.50, there is
10 good chance that wheat producers will be losing nearly \$1.00
11 per bushel this year.

12 This would amount to a loss of \$2.25 billion for
13 the 1980-81 wheat economy, based on a 2.25 billion bushel
14 crop. We see no signs of the per bushel price climbing to
15 USDAs projected \$3.75 for the season, and this is largely
16 due, we believe, to the Soviet grain embargo.

17 You, Mr. Secretary, possess any and all authority
18 necessary to stabilize post-embargo market prices for wheat
19 and feed grains, but have refrained from using it.

20 USDA has attached unrealistic expectations to the
21 direct purchase program, yet is unwilling to either utilize
22 existing authority to raise the loan level for wheat and
23 corn or back proposed legislation to do so.

24 The NAWG believes that a modest increase in the
25 loan level for wheat, such as that proposed in the

1 McGovern/Dole Bill is justified as a price restoration
2 mechanism in the post-embargo wheat economy.

3 During the next year, as farmers adjust to the
4 sudden and unexpected oversupply of grain resulting from
5 the Soviet embargo, release and call levels for the farmer-
6 held reserve will probably be more important to the producer
7 than they have been in determining his return from the
8 market. The NAWG believes that the release and call levels
9 should be tied to an increased loan level.

10 The NAWG also believes that a set-aside program
11 will be necessary this fall, since projected carryover
12 will be close to one billion bushels. The set-aside should
13 be announced immediately, as well as a plan for disposition
14 of the export contracts.

15 The NAWG believes that the loan, target price, and
16 other basic concepts contained in the 1977 Farm Bill should
17 form the framework for discussion of the 1981 Farm Bill.

18 These concepts were developed with broad consensus
19 from the farm community, and we believe that they can work
20 well for the producer if administered properly, and if the
21 loan and target levels are reasonably related to the cost
22 of production.

23 I would like to ask you, Mr. Secretary, during the
24 dialogue to follow, in what ways you believe these concepts
25 are outmoded, as you recently stated. You said in reference

1 to the target price and set-aside that they are, "expensive,
2 cumbersome, and don't work well".

3 If they don't work well, it is not the fault of
4 the laws. Rather, it is your fault in not using the
5 power that you have in setting the loan levels, set-aside
6 provisions, and other authority that you have. I have lived
7 under mandatory controls and so have you. Costs and
8 enforcement of this type are much greater than under the
9 present system.

10 These meetings have been a method for you to better
11 understand rural agriculture, its problems and hopefully, its
12 solutions.

13 The Department of Agriculture could well serve
14 this nation if only it would, in fact, become an advocate
15 of the family farm. The Department does not work effectively
16 with commodity groups, farm organizations, and the Congress
17 in implementing laws that would protect farm income in
18 relationship to the rest of the economy. The cost of pro-
19 tection is small compared to the cost of inaction.

20 SECRETARY BERGLAND: Thank you very much, Mr.
21 Felgenhauer. Now, Mr. Mullins.

22 (Applause)

23 MR. MULLINS: Mr. Secretary and Dr. Hjort, it is
24 a pleasure to be here. I am a farmer from Shabbona,
25 Illinois, Vice President of the National Corn Growers, and

1 I am going to limit my remarks to one specific area of
2 risk management, and that is the commodities future market.

3 I have made a summary of my written statement in
4 the interest of time.

5 I feel the benefits of the future market for the
6 corn producer and elevator operators are enormous. I ma
7 involved inthe futures market as a producer, also as a
8 commodity advisor and as an elevator operator.

9 I believe the futures market stands as an example
10 of the American free market system at its best, and it
11 is working at its best.

12 We are convinced the best Government policy which
13 brings the greatest good to the most people is simply to
14 let those markets work freely.

15 Government has an obligation to see that abuses
16 do not occur in the futures market, but it must realize that
17 overregulation could damage the free market structure in
18 agriculture that has been functioning well for generations.

19 Dr. Holbrook Working, a leading economics professor
20 at Stanford University wrote about wheat, but I feel this
21 applies to corn and other commodities, and I quote from
22 his works:

23 "The existence of futures markets makes it possible
24 for any indidividual, through hedging, to avoid certain price
25 risks, uusually major price risks connected with the holding

1 of wheat. The hedger transfer this part of his price risk to
2 a speculator in what futures...The speculator in futures
3 is not forced to take the price risks assumed, as an incident
4 to some other business, but presumably always takes them
5 solely on account of expectation of direct gain from the
6 risk-taking alone."

7 " Dr. Working stresses the fundamental difference
8 between futures markets hedgers and speculators. Hedgers
9 take positions in the futures market as a temporary sub-
10 stitute for the sale or purchase of actual commodities as
11 protection against possible adverse moves in prices.

12 He is in the futures market for the reason of
13 caution and to limit his exposure to risk.

14 The speculator in futures hope to profit from the
15 ups and downs in commodity prices. Speculators are
16 necessary to provide the market with liquidity and to provide
17 the hedger with opportunity for protection.

18 I feel more farmers and agribusinessmen merely
19 need to understand and practice hedging in the futures market.
20 If they did I am convinced they would bring more economic
21 stability to business.

22 In a recent FTC survey, it is shown that five
23 percent of all farmers will sales of \$10,000 use the futures
24 market. Eleven percent above 100,000. Eighteen about 200,000,
25 and 33 percent above 500,000.

1 Another survey showed that the larger the elevator
2 the more it used futures market. These surveys show that the
3 larger the units and risks, the more the commodity futures
4 market is used to manage these risks.

5 Smaller family type farms are rapidly going out
6 of existence because of the lack of efficiency and small
7 profit margins to sustain the family.

8 As shown in the survey, the larger units of three,
9 to four, five-man size, have specialization. In studying
10 marketing finance; agronomy, mechanics and other major
11 areas of producing profit in the operation.

12 A recent Perdue University study indicated a typical
13 farm has an investment of \$500,000 per worker. In compari-
14 son IBM has 64,000, GM has 40,000. The amount of these
15 farm operations generate jobs for 27 percent of the nation's
16 work force.

17 A healthy agriculture is still the backbone of
18 America and the futures markets and the free market system
19 is one of the tools to keep agriculture healthy.

20 Thank you.

21 SECRETARY BERGLAND: Thank you very much, Mr. Mullins.
22 I couldn't help but notice the contrast between your point
23 of view and that of Mr. Felgenhauer. It rather dramatizes
24 the dilemma confronting us.

25 Dr. Tweeten.

1 DR. TWEETEN: Mr. Secretary, first of all may I
2 bring you greetings from Joyce Airo(Ph). I was raised
3 four miles from Joyce, and a relative of your's, Ingabord
4 Gordland(ph) was our housekeeper for some years. At least
5 someone in your family made good.

6 (Laughter)

7 SECRETARY BERGLAND: We have the Vikings all over
8 the world, for lots of good reasons.

9 DR.TWEETEN: I read the summary of the Regional
10 Meetings, and one thing that truly impressed me was the
11 degree of unanimity on commitment to the family farm.

12 I did not find this degree of unanimity on what
13 specific measures should be taken to preserve the family
14 farm, and in particular, what role the USDA should play
15 in preserving the family farm.

16 In looking over census data one thing becomes
17 very clear. That is, that comparatively fewer farmers exit,
18 fewer established farmers exist during bad times. The
19 big major changes that occur in the numbers of farmers
20 occur because fewer farmers enter in bad times.

21 More farmers enter in good times.

22 Therefore, the key to the future of the family farm
23 lies with the young person who someday may or may not farm,
24 and may I speak for that young person today?

25 The mood of the country does not call for radical

1 new outlays for agriculture, or radical new interventions
2 from the Administration of agriculture.

3 I think that means that the emphasis has got to
4 be on stopping those Government activities and regulations
5 that interfere most with the establishment and development
6 of family farms, rather than the bold new ventures.

7 In reading over the summary of Regional Meetings,
8 I was impressed with a number of calls for high, rigid
9 price supports. Those high rigid price supports could double
10 or even triple land prices.

11 That would constitute a tremendous barrier to enter-
12 ing into farming of a young person. So, I think one must
13 be very, very careful of that kind of possibility.

14 The chief problem in agriculture is cash flow,
15 high, rigid price supports, and high land prices would
16 contribute to that problem.

17 In terms of tax policy, as a young farmer trying
18 to start out I am concerned because I don't have much net
19 income. The established farmer with a lot of net income
20 has a great deal against which to write off the investment
21 tax credit and a number of other tax credits and advantages.

22 The young farmer does not have these advantages.

23 I would like to attempt to establish a bit of
24 perspective here. In my mind one thing is clear, and that
25 is labor saving technology and input price ratios that

1 determine the use of these labor saving technologies, are
2 set by market forces in the private sector. Those are the
3 major determinants of farm structure.

4 Second in importance are tax and fiscal monetary
5 policy and regulations that have subsidized, in general,
6 capital and in many cases raised the cost of labor and hence,
7 encouraged the substitution of capital for labor and
8 agriculture and hence, speed the demise of the family farm,
9 and increase the size of the family farm.

10 With the current rate of inflation, we can expect
11 roughly a four percent current rate of return on farmland.
12 That is the way it has been for decades. Roughly a four
13 percent rate of return on farmland.

14 In addition to that, we can expect capital gains
15 approximately equal to the interest rate. That means we
16 can expect the total return on land, capital gains plus
17 current returns, are going to exceed the farm mortgage
18 interest rate in the long run.

19 But, in the short run, this situation is quite
20 different. With no inflation, the earnings on one acre of
21 land would pay the farm mortgage interest payment, or
22 rather, the interest. Not the payment itself, not the
23 principal.

24 With six percent inflation it takes two acres of
25 land to pay the interest on one acre. With 12 percent

1 inflation, it takes three acres of land earnings to pay
2 the interest. With 18 percent inflation, it takes four
3 acres of land to pay the interest on one acre.

4 Now, we get to what the USDA can do. Farmers
5 Home Administration pays a very key role in structure, in
6 my view. Within the USDA it plays a big key role, yet the
7 distribution of Farmers Home Administration lending among
8 farm sizes and types is one of the best kept secrets in
9 Washington, and I would request very strongly, Mr. Secretary,
10 that every effort be made to get out data on the distribution
11 of Farmers Home Administration lending activities by sizes
12 and types of farms.

13 The second possibility here, the second important
14 function of the USDA is commodity programs. There have
15 been a large number of studies by agricultural economists
16 on the impact of commodity programs on farm sizes and numbers.

17 The reading that I give to all of those studies
18 is that commodity programs have a very minor impact on the
19 size and number of farms. Not that they couldn't have a
20 greater impact.

21 My recommendation is that payment limitations be
22 made more stringent. In other words, reduce from approxi-
23 mately the current \$50,000 level to down roughly a \$20,000
24 level.

25 I have a specific program in my text.

1 Finally, extension and research play an important
2 part. A key to the family farm in competing with the
3 very large family farm, which can pay for information and
4 technical advice out of a large number of units produced, and
5 hence, can spread that cost per unit over a large amount of
6 production, a key in competing on the part of the family
7 farm, is public research and extension, and it is very
8 critical in order for the family farm to compete to continue
9 that investment in public research and extension.

10 Thank you.

11 SECRETARY BERGLAND: Thank you very much, Dr.
12 Tweeten. Now, Mrs. Gibson.

13 MRS. GIBSON: Thank you, Mr. Secretary, Mr. Hjort,
14 and the other members of the panel, and fellow Americans.

15 My name is Nita Gibson. My husband Charles and I
16 live on our farm 12 miles west of Seminole, Texas. I am
17 the National President of WIFE, Women involved in Farm
18 Economics. We have organized chapters in 15 states and our
19 membership is approximately 2,000.

20 WIFE is a grass-roots organization made up of
21 Women in America working together for the promotion of
22 economic survival in the field of agriculture.

23 On behalf of our membership, I wish to express our
24 thanks for this opportunity. WIFE believes in speaking out
25 for the producers of American's food and fiber. We believe

1 we have earned the right to do so, because: We spent
2 \$114 billion in production cost last year; we have worked
3 hard to stay in farming; we have wrestled with every known
4 farm related problem; we have taken the consequences of
5 bad weather without faltering or quitting; and we have
6 created a food and fiber production system that is unequalled
7 and is the envy of the world.

8 We have done all of this with less than four percent
9 of the population. This means that more than 96 percent of
10 Americans can pursue a career of their wildest dreams and
11 never have to worry one second about producing food and
12 fiber for themselves. In contrast, China's labor force is
13 76 percent agriculture and yet their productivity is
14 declining.

15 Before I address myself to my assigned topic of
16 The Role of Government in Agriculture, I must make these
17 comments because they weigh very heavy on my heart.

18 Our immediate concerns are the rapid increases in
19 interest rates that is putting many farmers in the
20 equity-financing trap. A large portion of farm producers
21 had only a precarious hold on their economic base when the
22 grain embargo was invoked in January.

23 A combination of this Act and the ensuing high
24 interest rates has created a panic stricken agricultural
25 economy. Unfortunately, the time to plant cannot be moved

1 around to suit the whims of Government, or allow for trial
2 and error testing of an idea.

3 Before I came here I touched base with leadership
4 of the 15 states where WIFE is organized and was told
5 repeatedly, the situation is critical. Grain, livestock,
6 cotton, most all commodity prices are down, operating capital
7 in some cases is not available. To sum up, Mr. Secretary,
8 the situation is very bleak.

9 Ironically, Mr. Secretary, I haven't really digressed
10 from my assigned topic too much because it is quite evident
11 the role of Government is ever present in agriculture. Right
12 or wrong, good or bad.

13 In earlier times in agriculture, our national
14 Government policy was largely of a technical, research and
15 educational nature that emphasized Government action to
16 assist farmers in producing more and better products at
17 less cost.

18 In recent years, however, the involvement of
19 Government into agriculture has grown beyond comprehension.
20 The greatest single influx of Government into agriculture
21 happened at a time, similar to today, when our country
22 was faced with an economic crisis unprecedented in American
23 history, namely 1933. The magnitude of that involvement
24 has been reduced by the further entrance due to consideration
25 of foreign policy, national security policy, Health, Education

1 and Welfare, National Conservation policy, war-time emergency
2 measures designed to increase production to supply the needs
3 of our allies; policies to balance supply/demand; to stabilize
4 price fluctuation; to achieve fair prices and income for
5 farmers.

6 With this amount of Government into agriculture I
7 think it naive to assume that we can chance this entrenchment
8 in short order. However, it is imperative that the farmers
9 of this nation be permitted to take on the role of Chairman
10 of the Board of agriculture in its relationship with
11 Government.

12 I am persuaded that the many complex problems
13 encountered in farming today cannot be resolved by a consumer
14 oriented body politic writing an omnibus farm bill every
15 four years with band-aide amendments in between.

16 I envision a national constitution for agriculture,
17 with borad flexible options adaptable to the needs of the
18 people of this nation, adaptable to the needs of exports.

19 A constitution with enabling legislation permitting
20 regional resolve to agriculture problems germane to that
21 region and at the same time afford each farmer a "Bill of
22 Rights" to pursue the operation of his farming enterprise
23 with minimum control or interference by Government.

24 On the other hand, I envision agriculture and
25 Government sitting down together in rsolving matters of

1 national security and foreign policy.

2 Impossible? I plea that it is not impossible. The
3 composite of our present laws have not made it possible and
4 economically worthwhile to continue to produce food and
5 fiber. Unless agricultural producers can finance their
6 operations, recover their cost of production and earn a
7 modest profit, we not only will not, but cannot remain on
8 the farm.

9 In addition, we believe the growing sentiment that
10 the land really belongs to the people, and that the farmer
11 has only a stewardship right in the asset; that the farmer
12 has a responsibility to provide food and fiber without a
13 profit must be refuted.

14 On these points we plea for special consideration
15 before we end up with worn out land like China, India, the
16 Middle East and elsewhere in the world, due to the inability
17 of farmersto reinvest sufficient money in land and water
18 conservation; in restoration of soil fertility to assure
19 continued production in the future.

20 To sum up, Mr. Scretary, and please know that I am
21 not trying to oversimplify; we need a dramatic transforma-
22 tion from our present policies to policies that would allow
23 us to cope with the ever-changing circumstances involved in
24 farming. We need a consitutuion for agriculture. A living
25 document that would assist us in protecting the individual

1 farmer from the intense competition we create among ourselves
2 that results in underpricing and overproduction.

3 A policy that would permit a working relationship
4 with all parties with the farmer having the favored position
5 in order for agriculture to be a viable profitable venture
6 for the American farmer.

7 Thank you.

8 SECRETARY BERGLAND: Thank you very much, Mrs.
9 Gibson.

10 Ms. McPherson, of all of the regulations which one
11 do you regard as the most onerous?

12 MS. MC PHERSON: I guess right now, because my
13 blossoms are falling --

14 SECRETARY BERGLAND: Your what is falling?

15 (Laughter)

16 MS. MC PHERSON: My peach blossoms. And, for the
17 first time in three years I am looking at the potential
18 for a crop, I now realize that the last three years that
19 I haven't had a crop, and I haven't had labor. I have
20 missed out on a lot of the opportunities to meet the people
21 from the Department of Labor that have been visiting my
22 neighbors, and I am scared to death.

23 In the definition of migrant, as well as farm labor
24 contractor, I am one and the same. I am both a migrant,
25 because I am a farmworker, and I am a contractor because

1 I have to hire people. And, in order to simply move a
2 group of workers from the orchard behind the barn to the
3 one beside my house, I need a license for my foreman.

4 My foreman needs a license to move those people for
5 me. I face the potential of having Wage and Hour show up
6 on the very busiest day of harvest of a very potentially
7 perhisable crop, to scruitinize my records for the last
8 two or three years to make sure that I haven't made any
9 mathematic errors.

10 I feel that I am being hunted like a criminal by
11 the people who come to my farm and say things have to be
12 this way, this way and this way, irregardless of whether
13 or not it works.

14 SECRETARY BERGLAND: Has the Labor Department ever
15 shown up on your farm?

16 MS. MC PHERSON: Not on my farm, but five miles
17 down the road -- nine miles down the road, they have more than
18 once, and right in the middle of the pea harvest time, and
19 as I understand in the Midwest EPA shows up on about the
20 third day in May wanting to know, what were your pesticide
21 records for the past two or three years.

22 When you know it is going to rain you don't have
23 much time to show them that. You have got to plant your
24 corn or wheat or whatever.

25 So, it is the idea of -- I have had OSHA inspectors

1 who walked right into the path of a backing up forklift who
2 went into the camp. Luckily my driver turned around and
3 we shut the whole place up for the rest of the day.

4 I have had an inspector who went into a camp that
5 is meeting standards for at least three of the inspection
6 agencies that inspected. There were three cousins living
7 in one of two open rooms. They had moved a bed from one
8 room into another so that they would have a living area,
9 and a sleeping area for the three of them.

10 She said one of you has got to leave because there
11 is not enough square feet for three people to sleep in this
12 room and breathe properly. They looked at each other and
13 said, "which one"? She said, "well you decide".

14 They were mad at us for the rest of the season.

15 In our state CETA funds in the area -- it started
16 at one-half a million and now it is about a million and
17 a quarter, are given to the person who writes the best
18 letter for the grant, and we have had a New Jersey group,
19 last year a New York State group who were directing the
20 activities of migrant workers in our state.

21 If all the money that was paid to CETA that never
22 really filters down to the workers were given to the growers,
23 we could afford tennis courts, swimming pools and holiday
24 motels for all of our workers.

25 There are more people looking after the workers than

1 there are workers, and these people who come --

2 SECRETARY BERGLAND: Do you really believe that?

3 MS. MC PHERSON: Haven't you seen the numbers?

4 SECRETARY BERGLAND: Oh, yes, I have.

5 MS. MC PHERSON: Well, when they keep showing up
6 and they are all from different agencies you really get
7 to wonder after a while.

8 SECRETARY BERGLAND: About 2.4 million workers on
9 farms.

10 MS. MC PHERSON: Yes. In my definition they all
11 don't qualify as migrants, and those are not the ones
12 these people are trying to help. Those whole 2.4 millions.

13 SECRETARY BERGLAND: Do you think the migrant program
14 should be abandoned?

15 MS. MC PHERSON: On our farm we have always been
16 friends with our migrants. We have had the same people come
17 back for 25 years. They come, many of them, and the people
18 who come with them, come north because down in Georgia at
19 100 degrees, the gnats flying in your mouth when you open
20 it up, and we have good weather compared to that.

21 They make, many of them, \$50.00 a day, and they
22 come up for their summer vacations, and they really resent
23 all of the people who come and try to help them.

24 Now, my neighbor down the road last year, he opened
25 up, he has to use migrant workers, okay. Five agencies

1 showed up on the first day. One to say I will give you
2 food stamps, one to say I will give you medical and dental
3 care, one to say you really don't have to work here. I
4 will take you somewhere else and train you, and within three
5 weeks there is no incentive.

6 Another one gave them welfare.

7 "Who is going to work in agriculture if the Government
8 keeps sending people to draw them off the farms at harvest
9 time?

10 SECRETARY BERGLAND: I don't want to prolong this
11 because we have other things to touch on. But, I think you
12 symbolize the lack of sophistication which exists in our
13 migrant labor policy and program.

14 We do need to develop programs which are more
15 mature than has been the case, indeed, because I think most
16 Federal programs have piddled around the edges and never
17 really have dealt with the fundamental problems of the
18 migrant or the employer who needs skilled workers, and
19 workers who need good job.

20 Mr. Palmby, you have touched on a matter which is
21 a constant concern of our's. It has to do with role of
22 risk sharing in high cost regions.

23 We were told by an expert that it is most likely
24 that about a half or so of the irrigated farms, particularly
25 in the high plains country will go out of the business of

1 growing irrigated crops because of economics.

2 Do you think that Government should do anything about
3 that?

4 MR. PALMBY: Mr. Secretary, I would have to ask
5 you first, what would be the options of Government? What
6 is open for Government to do?

7 I don't mean this sarcastically. But, you can't
8 make more water. I guess I am on a different wave length
9 here. I understand what you are saying, but this is a
10 matter of receding water table.

11 SECRETARY BERGLAND: It is that, plus the cost
12 of energy, and the rising costs of pumping water. The cost
13 of producing corn in West Texas is probably a dollar higher
14 than the cost of raising corn in Illinois.

15 So, then the job of Government, is it the job to
16 raise price supports or give a Government loan?

17 MR. PALMBY: I now get the significance.

18 SECRETARY BERGLAND: And the pressure is to establish
19 a regional target price concept.

20 MR. PALMBY: I get the significance of your
21 question.

22 I, having grown up with farm programs all my life,
23 as have you, and I am always impressed with the concept that
24 when we were young we called, our farm program. It is now
25 referred to as the Government program, as you know.

1 I do think that if we take this next step, as
2 you know, referencing -- as was taken in the last legislative
3 package, as moving towards a cost production, and that being
4 the factor in determining target price, we then have taken
5 a step, that we have made our farm program or our
6 Government program something more or something different
7 than what we used to look upon, as I like to still think
8 we look upon, as an economic based program. It then becomes
9 something else. It then becomes a payment to keep a
10 tradition going.

11 If we are going to do that, then I plead that it
12 be debated long and hard. I personally am against it, but
13 for the person affected, and I am not one of them, I can
14 easily say that. But, for the person affected, he should
15 have his day in court, and it should be openly discussed.

16 SECRETARY BERGLAND: The second question, Mr. Palmby,
17 a separate area. The President imposed an embargo on the
18 delivery of grain to the Russians. It came without warning.
19 It wasn't your idea. It wasn't the idea of any grain pro-
20 ducers as far as I know.

21 (Laughter)

22 SECRETARY BERGLAND: We are in a very, very difficult
23 state with the Iranians because of the way they behaved,
24 and increasingly the world has become the marketplace.

25 It started out that we traded between farms and now

1 it is between nations. I think it is a healthy trend. But
2 it opens up new risks, for which Government is not prepared.
3 We did not have an automatic program to put in place to
4 help cushion the shock of the suspension of grain sales
5 to the Soviets, and yet, as we deal in this imperfect world,
6 turbulent and wild at times, led by some persons we clearly
7 don't understand, and with whom we may have strong political
8 differences and on occasion, perhaps almost a military
9 altercation. We hope not, but who knows?

10 But, as we enter the world markets, we are
11 therefore exposed to things which no individual producer has
12 any protection against, and I think a lot of the anxiety
13 in the country today is because of that fear.

14 We can argue about why the price of grain has
15 dropped. The fact is it is down for a variety of reasons.
16 Most people blame it on the Russian grain embargo. That is
17 not the point.

18 What is the point is growers have no insurance
19 against that type of activity. What do you think the
20 Government should do about this? Any suggestions as to what
21 we might do in sharing risk, which is really an international
22 political risk?

23 MR. PALMBY: Number one, I think what you have
24 done this time around is commendable. Number two, I would
25 hate to see develop a structured program to take care of

1 this type of situation. I say it because a structured
2 program in place that the President or Congress can implement
3 the minute a decision is made for foreign policy reasons
4 invites the taking of that action.

5 Naturally, I would say that because I have no
6 great sympathy for economic sanctions because they don't
7 work. But, I will lay that aside. I am not here to debate
8 the action that was taken.

9 In answer to your question, I think it has to be
10 handled at that time on an ad hoc basis as the need arises,
11 as you have done now.

12 I commend you for what you have done, but I certainly
13 would not want to see a structured program in place that
14 when you take that action --

15 SECRETARY BERGLAND: Why not?

16 MR. PALMBY: Because it invites the use of economic
17 sanctions, and I don't think that economic sanctions,
18 except in dire circumstances should be used.

19 There is a difference of opinion here. That is the
20 greatness of our country in my opinion, but I think a
21 structured program designed to do that would invite the use
22 of economic sanctions.

23 SECRETARY BERGLAND: Mr. Felgenhauer, I happen to
24 think that price supports are to farm prices, what the
25 minimum wage law is to wage earners. The minimum wage law

1 is \$3.00 an hour and I suppose the average earner earns,
2 what, six or something? Do you disagree with that?

3 MR. FELGENHAUER: Yes, I do. I disagree with your
4 philosophy.

5 SECRETARY BERGLAND: You think minimum wage laws
6 should establish a wage rate for machinists?

7 MR. FELGENHAUER: I think the laboring industry
8 needs some protection. I think, why not?

9 SECRETARY BERGLAND: Machinists have arrived at
10 an industrial wage base by bargaining under authorities
11 granted by the Government, of course. But, the minimum
12 law, the Federal minimum wage law says \$3.00 an hour.
13 Do you think that analogy would fit into agriculture?

14 MR. FELGENHAUER: As long as it gives the laborer
15 a fair return so that they make a living.

16 This, of course is happening in agriculture. We
17 are down right now at the point where we are not getting
18 the return that is necessary for the input we put in.

19 SECRETARY BERGLAND: Do you think the Government
20 should guarantee that return?

21 MR. FELGENHAUER: They should guarantee a part of it,
22 like I said in my testimony, a safety net.

23 SECRETARY BERGLAND: How much of it?

24 MR. FELGENHAUER: It should be close to the cost
25 of production.

1 SECRETARY BERGLAND: Whose cost of production?

2 MR. FELGENHAUER: You have to take averages.

3 SECRETARY BERGLAND: Give me an example.

4 MR. FELGENHAUER: As you know the National
5 Association of Wheat Growers has contracted with Chase
6 Econometric, just as USDA comes up with their own cost
7 production, we have our own now, and it comes out projected
8 for 1980 for 4.59.

9 SECRETARY BERGLAND: Average.

10 MR. FELGENHAUER: Yes.

11 SECRETARY BERGLAND: A half below and a half above
12 that?

13 SECRETARY BERGLAND: I am sure they are.

14 You talk about the area where they have to pump
15 water, and the electric and energy costs are going to be
16 in trouble and they are probably going to have to look
17 at some other commodity possibly.

18 SECRETARY BERGLAND: My wife and I own 600 acres
19 of Red River Valley land in Minnesota, good land. And, we
20 farm and lease -- we have now leased that to our daughter
21 and son-in-law. They pay cash rent. We are getting a ten
22 percent return on our investment plus our land taxes paid.

23 My daughter and son-in-law raise spring wheat
24 among other things. They make money. Their cost of pro-
25 duction on our farm is about \$3.00 a bushel, a little

1 under. Now, that brings a decent return. They pay their
2 expenses and it is a money-making enterprise. If I were
3 to sell my daughter and son-in-law my farm at market price,
4 put it up for auction and they were to buy it, it would
5 add at least a dollar a bushel to their cost of production.

6 How do we deal with a situation like that?

7 MR. FELGENHAUER: Well, that is exactly what a
8 lot of farmers are going through, that have had to buy
9 land to stay in business.

10 SECRETARY BERGLAND: If we were to raise the price
11 supports, to say, the \$4.00 level, what do you think the
12 land, my farm, would go for?

13 You don't know my farm, but it would go for much
14 more money than it is worth in today's market, and it is
15 worth twice as much today as it can pay for.

16 MR. FELGENHAUER: When you say you are getting a ten
17 percent return on your investment, that is original invest-
18 ment.

19 SECRETARY BERGLAND: Original investment. My wife
20 and I enjoy a ten percent return on the money in that land.

21 MR. FELGENHAUER: Take your land for what it is
22 worth today --

23 SECRETARY BERGLAND: That is the problem. Today's
24 market, it would command two times what it is worth because
25 I have two neighbors, one on each side -- because of

1 inflation, this is my problem. I have a neighbor on one
2 side with 2,000 acres and one with about 4,000 acres of
3 highly inflated land, which they can pledge to almost
4 any insurance company and outbid my kids of their farm.

5 The higher we are going to set price supports, the
6 higher they will bid. And, that is my basic contention,
7 with the Government setting supports it all goes back to
8 land values, and I don't know how to break this because
9 it can't go on this way.

10 We can't in my view. I recognize the problems
11 that young people are having in competing in this environ-
12 ment. Dr. Tweeten has alluded to -- and I will get to that
13 in a moment.

14 MR. FELGENHAUER: Mr. Secretary, would you tell me,
15 in all of your discussions, what your conclusions are on
16 what is the size of a family farm, how many people should
17 be working on this farm, and what its income should be?

18 SECRETARY BERGLAND: I have a private opinion. I
19 think it is a farm big enough to stay busy. That eliminates
20 about one and a-half million. They are not big enough to
21 keep the family busy.

22 I don't think Government programs should insure
23 people a full-time living from a part-time job. So, you
24 automatically eliminate most of them on the bottom side,
25 and on the upper side, I think it is a farm that doesn't

1 hire more than two workers on a year-round basis.

2 MR. FELGENHAUER: You have a job in Washington,
3 but -- and you have other income. If you were still farming
4 there would your farm be big enough for yourself and your
5 son-in-law?

6 SECRETARY BERGLAND: Yes.

7 MR. FELGENHAUER: It is pretty hard to pass this
8 farm of yours on to the next generation. I think a farm
9 ought to be able to support two families.

10 SECRETARY BERGLAND: My farm?

11 MR. FELGENHAUER: Yes. It ought to be of size
12 large enough to support two families rather than one.

13 The reason I say this is that there are three
14 generations involved in a farm operation. In order to
15 pass it on to the next generation, and you start out at
16 20-years of age and you have a family, and at 40-years
17 of age that son is ready to start farming, let's say, and
18 you are only 40-years old. You are not ready to retire.

19 At 60 you are a little bit more ready to retire,
20 so there is 20 years there when you need your son involved,
21 and you want to stay involved also.

22 SECRETARY BERGLAND: Mr. Mullins, I was very
23 impressed by your -- the values you attached to the
24 commodities futures industry. I happen to think that industry
25 is really the strength of our market structure. It is, in

1 my view, the one place in which willing buyers and willing
2 sellers get together and agree on price and terms and
3 conditions, but I know that people tend to shy away from
4 it. I am talking about farmers.

5 I don't want to get into it, that all of this year's
6 1979 corn crop could have been sold at more than three
7 dollars a bushel by the corn growers of this country.
8 They could have sold the crop for more.

9 My wheat crop could have brought a dollar a bushel
10 more than it is bringing today, and that is all hindsight,
11 but if my son-in-law had contracted -- and as a matter of
12 fact he did -- if he had contracted to deliver his wheat
13 crop last summer at a much higher price than is currently
14 the case, people, the thing they tell me is that they
15 don't want to gamble.

16 They don't want to gamble by hedging. They want
17 to gamble by not hedging. What if anything do you think
18 that Government should do to acquaint farmers with the
19 business opportunities that are presented by the futures
20 contract as a means of really sharing risk?

21 MR. MULLINS: I don't really know if Government should
22 do anything other than make them aware of the opportunities.
23 I mean, as far as any regulatory action. I wouldn't want
24 to see it.

25 SECRETARY BERGLAND: I didn't mean that. If I left

1 that impression, strike that from your mind.

2 What I am thinking about is an informational way,
3 is there anything that we should do?

4 MR. MULLINS: It is very difficult. I have been
5 dealing in commodities for probably 15 years now, and
6 I pay dues every year, or tuition, or whatever, because
7 it is just something which you can't learn out of a text.

8 It is a changing environment all of the time. There
9 are so many variables connected, but I think the basic
10 concept is you have to set up a program that would match,
11 not only the size of the operation, but the ability of the
12 operator to run the program. This is just -- it is
13 a different program for every individual farm.

14 There is no way that you can go out with a broad
15 education program to teach people to do this. I think
16 it is just a slow process. The more we can get people
17 thinking that this is the right thing to do, and to under-
18 stand it. The reason they are afraid of it is because they
19 don't understand it.

20 They worry more about 5,000 bushels of contract corn
21 than 100,000 bushels spoiling in a bin. They -- a guy
22 just starting out --

23 SECRETARY BERGLAND: Speculators tend to give the
24 commodities market liquidity, especially in thin markets.
25 I understand their role, but this scares a lot of folks,

1 because speculators will invest their money, buy or sell,
2 on the basis of what they think will happen. They don't
3 intend to take delivery. They have no capacity to deliver
4 and sell.

5 One of the criticisms is that speculators are in
6 there and they run that market up and down on the basis of
7 hearsay. It has nothing to do with fundamentals.

8 The fundamental fact, for example today, is that
9 the world grain requirements are greater than the world's
10 grain supply, so there are other factors that tend to
11 dampen the grain markets.

12 Question. Do you believe that speculators should
13 be treated differently than hedgers in marketing require-
14 ments, and if so, under what terms and conditions?

15 MR. MULLINS: No, I do not think they should be
16 treated differently. I think they are the best friends
17 the hedger has in the market. Who else would have got the
18 price of corn up to that profitable level you were talking
19 about, and give us the opportunity to market it at that
20 level?

21 Taking the other side of the position, not only that
22 if you were a user of grain, he forced it down to a level
23 where you could purchase it at a cheaper price. He gives
24 the market the liquidity we need to function, as a hedger.

25 SECRETARY BERGLAND: I think the market gets a bad

1 rap in the reporting sometimes. From time to time I get
2 terribly upset because markets were moved nine cents for
3 some reason that makes no sense, and a while ago I was
4 reading that the price of corn in Chicago dropped four
5 cents because the sun broke through over the clouds in
6 LaSalle Street. That was the reason given, and that is
7 what gets people upset.

8 Farmers throw up their hands and say, "what's the
9 use". So, perhaps it is a matter of changing the manner
10 in which these matters are reported.

11 MR. MULLINS: I think we have to identify the
12 opportunities that are available at this fluctuation.

13 SECRETARY BERGLAND: Dr. Tweeten, there are two
14 neighboring farms up where I am from, one of whom inherited
15 the place from the old man and paid a modest tax, and the
16 other one did not.

17 The other one scratched and clawed and paid for
18 everything, or tries to pay for everything that he or she
19 can pay for out of earnings.

20 The one who has enjoyed this inheritance has
21 obviously a much lower degree of risk than the one who
22 does not have that inheritance.

23 Is this something the Government should do anything
24 about?

25 DR. TWEETEN: Referring back to the Government

1 hearings, farms could more easily be passed on from
2 generation to generation. Others wanted to raise the
3 estate tax very, very high as a way of breaking up farms
4 and making them available to more young people who want
5 to start.

6 We have been doing some work on taxes at Oklahoma
7 State, and we find the current estate taxes are such that
8 they do not severely interfere with passing an economic
9 unit from one generation to the next with a substantial
10 equity.

11 I have figures here for the 12 percent inflation
12 rate. This is a typical Oklahoma farm of 900 acres, with
13 the initial net worth of \$173,432, which is the maximum
14 that can be handled with a cash flow.

15 In 30 years, whatever year that is, at 12 percent
16 inflation, the net worth on that farm would be \$13,376,000.
17 The estate tax on that would be \$8,415. The residual
18 estate would be \$5 million.

19 When you discount that, when you put it into
20 present value, 1976 present value, it is \$164,000 which
21 was less than the initial net worth. That was the only
22 case where the ending, that worth in real terms was less
23 than the beginning, that net worth.

24 That was the only case where the ending -- that
25 worth in real terms was less than the beginning, that net

1 worth. For lower inflation rates, and particularly if
2 estate and income taxes are indexed, then there is no
3 problem. There is plenty of net worth to pass on.

4 It is only with very high inflation rates and
5 without indexing of income taxes and estate taxes that there
6 is a problem.

7 SECRETARY BERGLAND: Ms. Gibson, tell me about
8 this "Constitution for Agriculture" that you are advocating?

9 MS. GIBSON: Well, Mr. Secretary, we feel like
10 in agriculture, and I know I work closely with women all
11 across the 50 states, and I hear constantly as I know
12 you do, gee I don't even hear beginning what you hear,
13 but there are those isolated problems that are just as
14 real to those people, that it effects, as the whole
15 situation.

16 So, it seems to me if this country can come up
17 with the things we do, it can go to the moon, and do all
18 of these things, surely, we can devise a living document,
19 one that moves and breaths as the need requires as our
20 Constitution has and has served us so well.

21 I think we can instrument such as this in the
22 realm of agriculture. I know I have discussed with you,
23 and if you don't mind my talking about cotton, we have
24 an isolated problem in West Texas about cotton. I hear
25 isolated problems about people who raise corn and wheat

1 based on agriculture being irrigated, or agriculture being
2 dryland, et cetera, down the line.

3 This is tremendously complex, and as we bring
4 these problems to you we are bringing them to you from these
5 regions and from these problems in these regions, yet they
6 are not the same as the views of this panel. They are
7 not the same.

8 Therefore, what we have got to do, we have a
9 national Constitution that has served us well for 200
10 years, and it will continue to serve us well because it is
11 a representative republic.

12 If, we the people, exercise our rights that it
13 gives us, as we have and elastic clause, we have a kingpin
14 clause, we have states rights, all of these things, surely
15 with the brain power we have in people that are really
16 resolved to do something in agriculture --

17 SECRETARY BERGLAND: Can you do all of that with-
18 out costing money.

19 MS. GIBSON: I think the best thing we could do
20 without costing any money, because if we get money involved,
21 then we have problems involved.

22 SECRETARY BERGLAND: Indeed we have. I am
23 interested in your scheme, but we don't have time to
24 go through it in detail today.

25 Dr. Hjort?

1 DR. HJORT: Ms. McPherson, you made it fairly
2 evident that you are not greatly in favor of regulations
3 that we have at the present time that affect agriculture.
4 Those, of course, are the product of laws, and the regula-
5 tions are formulated for the administering agency to
6 implement them.

7 My question is, what criterion would you suggest
8 that Congress use and the administering agency use in that
9 development of laws that impose the use of regulations
10 and the agency that puts them out?

11 MS. MC PHERSON: I think at this point Congress
12 has lost control over the laws that they have passed. The
13 one really blatant example FLCRA, that was originally to
14 make sure that a farm labor contractor did not abuse the
15 workers that he transported, carried, as the harvest goes
16 on.

17 The Department of Labor, possibly because this
18 particular law is the only one that affects agriculture
19 labor, has now broadened the definition of terms in this
20 original law to mean that to run my packing house -- I am
21 a contractor even though I am using the kids who go to
22 school in my own school district, retired people in my
23 own area, and in Pennsylvani we have the nightmare case
24 of Mountain Brook Orchards where this man has spent
25 \$10,000 in legal fees fighting the Department of Labor.

1 At this particular point he has won in court and
2 the Department of Labor is appealing.

3 Now, it appears that the Government has all the
4 time and all the money in the world to fight an individual
5 grower. There is some -- a lot of information of FLCRA
6 in there.

7 I think that Congress needs to look at the real
8 octopus that has been created, because these agencies after
9 they are established and are going to the letter of the law,
10 they interpret beyond what Congress originally meant.

11 I think they have to possibly enact sunset
12 legislation, make sure that there is cost benefit to the
13 regulation. You, know, and review them, make yearly or
14 at least on a five-year basis, and find out how those
15 regulations actually are affecting people because there
16 are growers in Pennsylvania who have paid fines for years
17 because they didn't want to take the time to fight the
18 Government.

19 Jerry Edgewood finally said, "I was right in this
20 case", and he went to battle for all of us.

21 MR. HJORT: Does your organization actively
22 monitor proposed regulation and participate in the comment
23 period?

24 MS. MC PHERSON: Yes. We have done so on FIFRA,
25 on ARPAR, for many of the chemicals that we need, and

1 as things, especially on a large scope affecting a lot of
2 farmers, we do our best.

3 MR. HJORT: Do you think that is an effective
4 mechnism to address the concerns that you have?

5 MS. MC PHERSON: If I didn't I would not be here,
6 and I would not go where I have gone before. Yet, when
7 I come to Washington I feel terribly small. There are so
8 many buildings and so many people and so much paperwork that
9 I feel so minuscule that I have lost control, much more
10 than when I go back home. There you try to hide out.

11 MR. HJORT: Clarence, just one followup on the
12 dialogue you were having with the Secretary about this
13 question of having something in place.

14 But, in a broader context, aren't we in a situation
15 that what we need as nation is a flexibility to deal with
16 the unknown. I mean a crop disaster in some country,
17 a major policy change here or some other place, all of
18 these things can affect our own circumstances greatly
19 from what one may have perceived they were going to be.

20 Doesn't that imply that what one needs in legisla-
21 tive authority is a sufficient flexibility to be able to
22 respond to those unexpected and unknown events.

23 MR. PALMBY: Howard, I tried to give you my
24 view that -- and this is a bit personal. I was never
25 more impressed than I was on January 5, 6 and 7 of the power

1 that the Secretary of Agriculture in the USDA does already
2 have. As a company representative and I am not speaking
3 for a company today, I am sort of speaking for the Chamber,
4 but as many companies in that Chamber, directly involved
5 and directly hurt, and directly put into an unknown area
6 following that decision, I don't think that I have heard
7 anyone say that they would like to see some permanent
8 legislation that would take care of such a situation in
9 the future.

10 I guess what I am saying to you is, you are
11 already pretty well given authority, which in this case
12 I think you have used wisely, and I think you have enough --
13 I believe that.

14 MR. HJORT: I think we did demonstrate that we
15 did have a considerable amount. We do have a measure
16 that would do a couple of things.

17 Give the Secretary the time to rethink a set-
18 aside, and it could give some standby authority for thos
19 who propose not to participate on a limited basis, in this
20 sort of an event and so on.

21 MR. PALMBY: You may have some clean-up thing,
22 yes, that I am not going to try to list though, but on the
23 overall -- the authority to take care of a situation, I
24 don't want you to have anymore.

25 MR. HJORT: Let me go on the Jack then.

1 Jack, first of all, since you are so varied
2 on wheat prices, I suggest you talk to Mr. Mullins who is
3 sitting next to you, because, obviously, you wouldn't have
4 to lose a dollar a bushel if you sold today.

5 I gather you are saying that you expect those
6 future prices not to obtain. You see things going to hell
7 in a handbasket, as far as wheat is concerned.

8 MR. FELGENHAUER: It looks rather serious, unless
9 something -- action is taken, if nothing more is done,
10 Mr. Secretary, and the crop outlook is as favorable as it
11 appears now, the carryover of what it will be we are
12 in trouble, because the export market is going to be
13 weaker next year it appears to me, because worldwide con-
14 ditions are favorable as you well know, and unless there
15 are some changes from what I see at the moment, we are
16 definitely looking at a falling market that cannot be turned
17 around by any other action except what the Secretary has
18 in his power, or what Congress has in their power.

19 MR. HJORT: What about the farmers' power? There
20 is a reserve program out there, and every producer is
21 eligible for it. That reserve programs says that no
22 farmer in the United States should sell wheat at less than
23 \$3.75 at the farm level.

24 And, the nation should pay the farmers back
25 until the price gets up to \$4.00. You are saying \$3.50.

1 I gather you are saying that you don't think the farmer
2 will use those tools to see to it that the price is at
3 least \$4.00 or so?

4 There is no limit on the amount that goes into
5 the reserve, none whatsoever, and so we are strictly in the
6 hands of the farmers, but you are just saying that the only
7 way that the farmers themselves -- just won't use those
8 tools. It has to be something else.

9 MR. FELGENHAUER: You left out one figure. You
10 left out the loan at \$2.50. If you raise that loan to
11 one that we support right now of \$3.00 I think that the
12 Farmer Held Reserve Program is one of the best parts of
13 the 1977 farm bill, and it has been used and it has been
14 used well, and it is a real good buffer to tapering off
15 of the market, but there has to be an incentive and \$2.50
16 does not give the incentive to the farmers who need much
17 more than that to carry on their farm operation.

18 They need more money to operate with, and cash
19 flow is higher than that, and they cannot go into the
20 program without an increase loan, and of course, if we
21 were to raise the \$3.75 and the \$4.63 you talk about a little
22 higher, I think we can bring the market up proportionately,
23 and everybody would gain by it.

24 This has worked before with the Farmers Held
25 Reserve, and it worked well a year and a-half ago and we

1 need to do it again.

2 MR. HJORT: You are saying really that the farmer
3 would prefer to sell at \$3.50 rather than to take the loan
4 for a period of time, and under that program make sure that
5 the wheat price was closer to four?

6 MR. FELGENHAUER: He is forced to by his banker,
7 for example, with the high interest rates and the other
8 input costs he has to pay cash for.

9 MR. HJORT: Do you think that the bankers under-
10 stand that reserve program?

11 MR. FELGENHAUER: I think they do, but the
12 farmer has to wait a while to get the full amount. He
13 only gets \$2.50 initially and then he has to wait possibly
14 three years to get the rest of his money.

15 MR. HJORT: I don't see why he should in this
16 situation, in this year, where if they want to put their
17 whole crop in the reserve there won't be an increase. The
18 only way he could come back is if the prices were above
19 that reserve.

20 MR. FELGENHAUER: It would have to go back to
21 \$3.75 national average. Right now it is way below that.
22 The national average, if I am not mistaken is about \$3.48;
23 is it not?

24 MR. HJORT: Somewhere around that, okay.

25 It is interesting that the farmers are willing to

1 sell, and not use those programs that are there for them.
2 I don't know Jack, that I have any real question, other than
3 to encourage you to talk about the use in the future as
4 a hedge.

5 Well, the then goes and takes advantage of the
6 reserve, and with the combination to see if he can't make
7 sure that he ends up with considerably more.

8 MR. FELGENHAUER: This job that you fellers need
9 to promote is the use of the futures market more than you
10 do.

11 MR. HJORT: Luther, one quick question and it
12 probably doesn't have a very simple answer, but we have
13 had the general impression, I think, for sometime that
14 it is becoming increasingly difficult to enter agriculture,
15 yet in the last few days we have repeatedly heard people
16 say that it is difficult to enter agriculture, but it has
17 always been difficult, and the judgment is made that it
18 is really not any more difficult now than it was before.

19 What were your findings and your research --
20 in your judgment, what would they conclude on this issue?

21 DR. TWEETEN: Well, my conclusion is that it
22 is much more difficult now than in former years to enter
23 agriculture.

24 If you look at the cash flow generated relative
25 to the cash flow requirements, there are much more severe

1 hardships in trying to start now.

2 If you look at the amount of capital required,
3 the size of an economic unit -- we are talking about an
4 economic unit now of sales of at least \$100,000 a year in
5 grain farming and assets of about \$1 million. Barriers much,
6 much more severe.

7 There are people who are getting over them and
8 there will probably always be people who get over those
9 barriers, but it is getting alot more severe. That tradi-
10 tional ladder of hard labor, renter, part-owner, full owner,
11 is becoming much more difficult.

12 We have a landed class basically today. It is
13 almost impossible to get started unless you are the son or
14 daughter of an established farmer.

15 As I mentioned before high, rigid price supports,
16 which mean that we have a landed aristocracy, because
17 the only way you can get started is by being the son or
18 daughter of a very wealthy farmer.

19 MR. HJORT: Mrs. Gibson, in your proposal would
20 it take greater flexibility in the basic legal authority
21 which we have? I raise that because it seems to me that
22 the Congress increasingly over the years has moved to
23 legislate programs rather than policies, and therefore, the
24 flexibility in administering programs is increasingly
25 constrained. They want to put formulas and they want to put

1 numbers on and so on.

2 I guess under the assumption that the world doesn't
3 change. If so, how does one deal with that?

4 MS. GIBSON: I believe that formulas are dangerous.
5 I think as an example of that, and of course, in a way I
6 apologize for having to refer back to cotton, but this is
7 where my knowledge is. I make no apology for that.
8 I have worked in marketing, in cotton, for five years so
9 therefore when you ask that question in a place like this
10 you always revert back to those things you feel like you
11 know something about.

12 But, as President of WIFE, I want the corn people
13 and wheat people to know we are fighting for them too.

14 Formulas are dangerous. In the 1977 formula
15 there was a self-destruct kit. It was designed with the
16 trade. It worked well for the trade and it killed the
17 producer.

18 In relationship to what Mr. Palmby said, I have
19 great appreciation for his comments, but I think the
20 reason why he is not unhappy, and all of us are unhappy
21 with the embargo, is because we have been hurt and the
22 trade has not.

23 I think you know, you always hear this, and so
24 as far as the futures market is concerned, I have a great
25 appreciation for that and I work with it every day, and I

1 see farmers lose of tons of money every day. So, I wish
2 our bankers in West Texas would say, yes, Nita Gibson
3 you and your husgand are cotton farmers. You have a
4 deliverable contract. However, it is not a Number Two
5 quality type contract so, therefore, it won't work.

6 This is why in my very feeble way, and please
7 understand it is a very sincere thing, that is surely to
8 goodness there is a flexible living instrument that can
9 be designed, and our think our minds can come up with it.

10 I am not saying that it is something that can be
11 done in a short period of time. I am not saying the Depart-
12 ment of Agriculture would have the answers, or that we,
13 the farmers, would have the answer, but I think the combina-
14 tion of those of us who are so close to this precious
15 thing of agriculture can certainly come up with something
16 that would take care of those people who raise corn, that
17 we in cotton would compete with them. For example, right
18 now, the embargo how did it affect us?

19 The cotton market went down, because we know in
20 the Panhandle of West Texas they are not going to grow
21 corn because corn is depressed. They are going to grow
22 cotton in the Delta. They are not going to go to soybeans,
23 they are going to go to cotton.

24 SECRETARY BERGLAND: Does this have anything to
25 do with cotton prices that are the highest in history?

1 MS. GIBSON: They may be the highest in history,
2 Mr. Secretary, for those in other areas, but they are not
3 for West Texas.

4 Our average price of cotton was 55 cents per
5 pound. Other cotton got to \$1.50. You are right, but not
6 for our area.

7 This is what I am talking about. We have a
8 problem in our area, and we have to have somebody to listen
9 to us. A very productive area, the south plains area, and
10 the rolling plains of Texas is the second largest producing
11 area. We have an isolated problem.

12 We do not have a Number Two contract. I under-
13 stand this man's language, but Number Two contract cotton --
14 I would love to set a contract in somebody's yard any given
15 day. I would like to deliver the cotton, but we cannot
16 deliver the cotton.

17 SECRETARY BERGLAND: I am not going to debate the
18 standards with you Nita Gibson. You know more about this
19 now than I can ever learn, but under the -- the gentleman
20 from New York mentioned by implication, do you have anything
21 you want to say about the grain embargo and holding grain
22 companies harmless?

23 MR. PALMBY: Just a second. I would not want to
24 convey to you a degree of happiness or unhappiness.
25 My comments made reference to a very unhappy situation on

1 January 5, and I commend people who put their shoulders to
2 the wheel of what can we recoup, on what at that point was
3 an impossible situation.

4 So, I pay my plaudits where they are due. I
5 didn't want to convey the attitude that I am unhappy, but
6 still, life is rather short, enjoy that which you can.

7 (Laughter)

8 SECRETARY BERGLAND: I want to thank you, ladies
9 and gentlemen very much.

10 This brings this segment to a close. We will
11 shortly get to the last panel of the afternoon, but before
12 we do we will take a five minute necessary break.

13 (Short recess)

14 SECRETARY BERGLAND: We might have your attention,
15 please. We will proceed with the final panel on today's
16 program discussing the subject, "Agriculture and Development".

17 The panelists include Dr. Amos Hawley from the
18 University of North Carolina.

19 Mr. Don Reeves, representing the Interreligious
20 Task Force on U. S. Food Policy.

21 Dr. J. Patrick Madden from the Pennsylvania State
22 University.

23 Dr. Gale Vanderburg, Director of Extension from
24 the University of Wisconsin; and

25 Representative Dale Locker, representing the

1 National Conference on State Legislatures.

2 Dr. Hawley.

3 DR. HAWLEY: Mr. Secretary, since 1970 new trends
4 in population distribution have appeared. The long term
5 rural to urban movement of population gave way to a flow
6 from metropolitan to nonmetropolitan counties.

7 While most of that was directed to counties
8 adjacent to metropolitan areas, many non-adjacent counties
9 gained population through net internal migration, six of
10 ten after 1970, in contrast to one of ten prior to 1970.

11 The movement is actually a continuation on a
12 broader front of a progressive deconcentration of urban
13 population that has been operating from early in the
14 century. The drift has been from city to suburban territory,
15 then from metropolitan to nonmetropolitan sectors.

16 Circumstances favoring the broad-scale deconcentra-
17 tion have been in preparation since the turn of the century.
18 I refer to the extension and elaboration of the road network,
19 the introduction of the rural free delivery of the mails,
20 the linkage of local telephone systems to the Bell system,
21 the spread of automobile ownership, rural electrification,
22 hard surfacing of local roads, the radio and most recently
23 the television.

24 Accompanying these changes are many evidences of a
25 reorganization of rural or rather nonmetropolitan America.

1 While the size of rural population has remained fairly
2 constantbetween 1920 and 1970, the nonfarm share grew
3 from 38 percent to 82 percent of the total.

4 A decline of employment opportunity in agriculture,
5 reaching a low point of 3.4 percent of the labor force in
6 1970, has resulted from a general reorganization of agri-
7 culture; a decrease in the number of farms; increase in
8 the size, in specialization, in capitalization, in frequency
9 of corporate ownership of farms; and in the absorption by
10 industry of agricultural technology and many farm activities.

11 The index of productivity per worker increased
12 from 21 to 113 five-fold since 1940. The decline in farm
13 employment only partly reveals the decline in opportunity;
14 for many farm households, agriculture has become a minor
15 source of income loss of non-farm income would drop
16 three-fifths of the farm population below the 1977 poverty
17 level.

18 Off-farm employment has been found in rapid
19 increases in manufacturing, service, recreational and govern-
20 mental industries. In short, agriculture has rapidly become
21 industrialized, and not significantly different from
22 business enterprise, while nonmetropolitan population has
23 become urbanized in consumer habits and lifestyle.

24 Despite the many facets of nonmetropolitan-
25 metropolitan convergence in economic and social organization,

1 there are many disparities remaining. Large gains in
2 income and education have been made, but nonmetropolitan
3 areas still lag behind metropolitan areas, especially
4 among Blacks and Chicanos.

5 Nonmetropolitan areas still retain large propor-
6 tions of the impoverished population. Although unemployment
7 rates are lower in nonmetropolitan areas, underemployment
8 is considerably higher.

9 An undetermined amount of industrial development
10 is attracted by low costs of labor and its effect on
11 nonmetropolitan development is questionable therefore.
12 Low densities, moreover, militate against scale economies
13 in public services and institutional activities of all
14 kinds.

15 Needless to say public policies should be directed
16 at reducing the differences in opportunities, access to
17 amenities, and local government capabilities. But the
18 knowledge required to inform such policies and the programs
19 they foster is far from adequate.

20 Thus, a major research effort should be mounted
21 to disaggregate and analyze the existing accumulations of
22 data and to generate new data to fill the many gaps in our
23 knowledge.

24 SECRETARY BERGLAND: Thank you very much, Dr.
25 Hawley. Mr. Reeves.

1 MR. REEVES: Mr. Secretary, I am a farmer from
2 Nebraska on sabbatical working for the Friends Committee
3 on National Legislation, and I am also acting on the
4 Interreligious Taskforce on U. S. Food Policy on whose
5 behalf I appear.

6 We have been pleased at this dialogue, the
7 national dialogue, on the structure of agriculture and
8 support your view that every farm policy decision should be
9 made with structural impacts in full view.

10 Today we go beyond that perspective to suggest
11 that even describing a desirable structure would require
12 a fuller exploration of values from which structural goals
13 will derive. A writer reflecting on the appropriate tech-
14 nology movement said: "Appropriate technology reminds us
15 that before we choose our tools and techniques we must
16 choose our dreams and values, for some technologies serve
17 them, while other make them unobtainable."

18 The same is true for the range of areas and
19 policies being considered in these hearings. Values, and
20 the social insitutions which encourage or discourage them,
21 must be treated not as afterthoughts, but as prior questions,
22 in this national futuring process.

23 We would make three points, quite briefly.

24 First, there are a whole range of personal, social,
25 community and religious values which we feel are more likely

1 to be associated with a dispersed agricultural system based
2 on small and moderate-sized family run farms, less likely
3 to be associated with large family farming units, and almost
4 certain to be diminished or lacking in an industrial model
5 of agriculture.

6 I hve had opportunity to meet with approximately
7 65 groups of concerned person from 14 denominations of
8 faith groups and have asked them to share their responses
9 to two questions.

10 What spiritual values attend a family farm system
11 of agriculture, and the second question, do these values
12 relate to size of farm in an consistent manner?

13 The list you have before you on page two repre-
14 sents a large measure of consensus which emerges regarding
15 those value.

16 The first seven items on that list have to do
17 with the personal affects, the growth of family working to-
18 gether and making decisions together, and nourishing each
19 other as well as the farm.

20 I call attention ot Item 5, "Self-reliance and
21 creativity are fostered by independent entrepreneurs".
22 Much of the productivity of our agricultural system flows from
23 such individual initiatives.

24 Items 8 and 9 on those lists, point to the
25 correlation to the kinds of numbers and kinds of farms.

1 and the communities that focus around them.

2 Second, we suggest if these range of values were
3 taken seriously during consideration of farm policy issues,
4 the structural goals would be tilted toward more, smaller
5 farms, rather than toward fewer, larger farms.

6 It is our perception that farm policy decisions
7 have been made entirely on the basis of a very narrow
8 definition of costs of production or efficiency based
9 on direct economic costs.

10 Certain costs have not been counted. The list
11 on page three is suggestive of the social and community
12 costs, but enhance both indirect economic costs and the
13 loss of value and opportunity stressed earlier.

14 The chart on page four is a list of the repre-
15 sentation of what might happen if we combine the direct
16 economic costs and social and economic cost, to get a
17 total cost curve for some theoretical commodity.

18 Finally, we come to suggestions for the kinds
19 of changes in public policy which we think would shift
20 farm structures in a more human direction.

21 I am pleased to present to you, and to release
22 publicly, the attached Interfaith Statement on Public
23 Policy and the Structure of U. S. Agriculture, signed by
24 leaders of 13 denominations.

25 The statement is drawn from formally adopted

1 statements of several of these denominations. We don't
2 pretend, of course, that every recommendation has the
3 approval of every member of every faith group, but it is
4 signed by representatives of several other denominations and
5 may be taken as widespread endorsement of the changes
6 of the character we suggest.

7 Let me call attention to several specific changes.
8 First of all, cost is a general goal of encouraging
9 agriculture is based solely on small and moderate sized
10 farms. We would speak to equity of income for the labor
11 and management which farmers and their families put into
12 their operations.

13 We would suggest that the tax laws and the
14 payments from commodity programs ought to be restructured
15 so they would eliminate any incentives for large units.

16 Pressures towards absentee ownership or corporate
17 control of the resources.

18 We would suggest that new farmers need special
19 considerations including getting started.

20 We point to the continued loss of land, and
21 opportunity by minority farmers, and would encourage
22 active cooperation among farm groups.

23 Some attention needs to be given to farm workers,
24 and their present circumstances and helping them find
25 alternatives.

1 Extension research, need to place more emphasis
2 on the needs of small and moderate units, and a specific
3 issue, access to public land and water rights ought to
4 be strengthened in favor of small and moderate sized units.

5 We must never forget the words of the Psalmist:
6 "The earth is the Lord's and the fullness thereof."

7 Public policy that pursues these broad goals in
8 our time and place will contribute to responsible steward-
9 ship of the precious earth and its bounty of food, and to
10 justice for farmers.

11 SECRETARY BERGLAND: Thank you very much, Dr.
12 Reeves.

13 Mr. Madden.

14 MR. MADDEN: Mr. Secretary and Howard, what
15 is the relationship between small farms, family farms, the
16 structure of agriculture, rural development and the quality
17 of life and opportunities in rural America?

18 I am delighted that the Department of Agriculture
19 is addressing these important questions, and I wish I
20 knew the answers.

21 But, unfortunately, the research in this area
22 has not been adequate to provide solid answers. And, unless
23 we learn soon, many options for public policy and individual
24 choice may be permanently closed. As a nation we cannot
25 afford to blindly allow adverse trends in the structure of

1 agriculture to close off options for rural development.

2 Rural areas generally ^{lag}/behind metropolitan places
3 with regard to most factors that determine quality of life
4 and opportunities. Some have contended that as small
5 farms are replaced by huge ones, the quality of rural life
6 declines even further.

7 The famous study done by Walter Goldschmidt in
8 Southern California during the 1940's suggested that
9 communities surrounded by prosperous moderate-sized family
10 farms were better places to live than communities surrounded
11 by farms many times this size, large farms that rely
12 mostly on hired labor rather than self-employed family
13 labor.

14 However, since this type of research has not
15 been replicated in other parts of the nation, and nor is
16 it very up-to-date, and we have no assurance that Goldschmidt's
17 findings apply across the board to most rural communities.

18 Consequently, we have litte more than anyone's
19 hunch how most rural communities would be impacted if
20 farms were to become much fewer and larger than they are
21 at the present.

22 Nor do we know how many rural communities are
23 actually threatened with farm enlargement. Certainly there
24 are thousands of rural communities where farming is such a
25 small share of the economy that the size distribution and

1 structure of agriculture are irrelevant. There are other
2 communities where no threat of farm enlargement exists.

3 For example, where the fields are small and soil
4 quality so variable that management of large estates is
5 impractical.

6 Where family farms prosper, often with the
7 help of off-farm income, and, of course, where farm enlarge-
8 ment has already taken place to the extent feasible with
9 present or anticipated technology.

10 And there are other communities where farm
11 enlargement is proceeding at an alarming pace, bringing
12 changes in land ownership that are ominous and possibly
13 irreversible. There is growing evidence, for example, of
14 the disappearing middle syndrome -- part-time farms are
15 numerous and apparently a permanent feature of the structure
16 of agriculture, while moderate-size family farms are getting
17 out of farming or expanding to very large scale operations.

18 It seems increasingly difficult for young people
19 to get started in a commercial-size farm business. These
20 trends may be impossible to arrest or to reverse.

21 It is not entirely clear what the Federal Govern-
22 ment could do to ensure the longevity of more small farms,
23 without doing more harm than good to the economy and to
24 society as a whole, both rural and urban.

25 What kinds of small farms should be encouraged?

1 Part-time? Full-time only? How small? Should the help
2 be cut off when the farm reaches a certain size? If so, why?
3 And, how big should the farms be allowed to become before they
4 are deemed to be so large that Federally funded assistance
5 is no longer in the public interest?

6 What is the public interest as related to small
7 farms? How will the answers to these questions be decided?

8 As the President stated in his recent statement
9 of policy on small communities and rural development:

10 "A forward-looking policy is needed to manage
11 the effects of such a change -- to enable individuals and
12 communities to solve their problems and to capitalize on
13 their opportunities".

14 And, while these intentions look good on paper,
15 the level of support for programs to build and enhance
16 the capacity of rural communities is, in my opinion, grossly
17 inadequate.

18 First, funds may be earmarked for capital
19 improvements in rural areas, but the administrative budgets
20 and personal ceilings of the responsible agencies may be
21 too limited to permit efficient and equitable dispersal of
22 these monies or delivery of the mandated services.

23 Secondly, new capacity-building programs may be
24 created, such as the rural circuit-riding managers program
25 advocated in the President's policy statement. But unless

1 long-term funding commitments are established and maintained,
2 these new initiatives become as a mirage in the desert.

3 A tragic example, in my opinion, is Title V of the
4 Rural Development Act of 1972, which, despite strong evidence
5 of success, has languished through lack of budgetary support
6 from the past three Administrations.

7 Will the circuit rider manager program and other
8 new initiatives in the President's policy statement also
9 prove to be mirages?

10 Rural development is more than improved jobs
11 and income, though these are often essential. It is not just
12 creation of a prosperous family-farm structure of agriculture,
13 though this may be desired in many places.

14 It is not just capital improvements, though
15 roads and schools and health facilities and water and sewerage
16 systems are often badly needed. Rural development is all
17 of these things and more.

18 For it includes a quality of life in which rural
19 communities have the capacity to identify their own goals
20 and to initiate effective actions to meet these goals, with
21 self-reliance, with hope for the future. For rural develop-
22 ment in its finest sense is shaped to the needs and aspira-
23 tions of the people.

24 Thank you.

25 SECRETARY BERGLAND: Thank you very much, Dr.

1 Madden. Dr. Vanderberg.

2 DR. VANDERBERG: Mr. Secretary, Director Hjort,
3 I too am going to speak strictly to rural development.

4 For the past 35 years I have been closely
5 related to citizens in rural America as a county agent, a
6 professor and specialist at the land-grant university, and,
7 for the past ten years as State Director of the Wisconsin
8 Cooperative Extension Service, one of your employees.

9 For more than two decades now, and throughout
10 the Administration of five Presidents, there has been ever-
11 increasing concern and actions regarding agriculture and
12 rural development; concern over what is happening to the
13 rural systems, the natural environmental resources and their
14 related impacts on families, farms, firms and communities
15 in rural America and, thus, all of America.

16 I take this moment to extend the congratulations
17 of the Cooperative Extension Services and land-grant colleges
18 of all the States for initiating your series of dialogues
19 with the public on this whole agricultural and rural
20 development subject area.

21 You have created the teachable moment. You
22 have heightened the awareness and levels of interest in issues
23 relating to agriculture and natural resources as they
24 affect all people. And, you have reinforced the concept that
25 people can be and should be involved in policy decisions

1 which affect them and their future.

2 We fully intend to capitalize on this teachable
3 moment by establishing a cominuting dialogue with both rural
4 and urban people on major policy issues of the immediate and
5 long-range future.

6 We have a national policy committee that has had
7 representation at your previous hearings and they are in
8 the audience today. They will continue their plans following
9 this meeting.

10 I have one central point I wish to make on the
11 subject of agriculture and rural development.

12 Basic to what I have to say is the one over-riding
13 premise prevalent in rural America, espoused by Government
14 and national rural development leaders for years. It is
15 that:

16 Close, strong healthy families, neighborhoods and
17 communités who enjoy security, pride and cooperative
18 relationships are paramount to a healthy rural America.

19 Such a goal is dependent upon several conditions
20 which must be brought about. I would like to mention three.

21 First, there must be a healthy, viable agriculture
22 farming system of single-family-owned and operated farms.

23 Milk factories of 4,000 cows or farms with 400
24 cows don't fit that criterion; nor do hog factories of 50,000
25 hogs, egg factories of 200,000 laying hens, beef factories of

1 100,000 head, nor huge crop production operations.

2 It may be that they are the most efficient for
3 lowest cost of food to consumers, but they are not in the
4 interest of prevalent human values, family values, and
5 community values.

6 They are a negative factor to rural development.
7 We may need to quit holding up cheap food as the idol to
8 worship in favor of other values in the qualify of life
9 in the decades ahead.

10 We may need disincentives for sizes of operations
11 that are beyond some general size criterion for single family
12 operation. Conversely, we may need higher incentives for
13 family size operations.

14 It will take bold steps by executives and legisla-
15 tors to identify and change the policies on taxes, credit,
16 farm program, business, et cetera, which encourage these
17 ever-enlarging operations.

18 Second, there must be a range in quality and
19 levels of non-farm jobs in rural communities, full-time and
20 part-time. That requires adequate community facilities and
21 services, adequate education and access to cultural events,
22 and adequate housing.

23 In places now it is happening, but far too little
24 attention and resources are being given this matter. Farm
25 and non-farm enterprises are integral parts of every

1 vigorous community.

2 Needed incentives for encouraging this movement;
3 and disincentives for discouraging the increasing build-up
4 of huge industrial developments in the megalapolises of
5 America.

6 We need Federal long-range policy guides to
7 adequately encourage investments and resources to the smaller
8 communities throughout America; and we dearly need the
9 railroad system which built rural America and which has
10 almost abandoned rural America.

11 Third, essential to rural development and to all
12 Americans is the whole conservation and natural resource
13 regeneration ethic.

14 It is not just the conservation and enhancement
15 of our fragile supply of prime agricultural land being lost
16 in the maximizing of production in an increasingly special-
17 ized agriculture, but it is the best use of all kinds of lands,
18 the quality of the limited water resource, places for and
19 safe methods of waste disposal and recycling, preservation
20 of natural scenic beauty and of wildlife. It is the whole
21 environmental quality problem that must be better understood
22 and better addressed by all citizens.

23 Many organizations, groups and individuals are
24 anxious to see the Renewable Resources Extension Act funded
25 as one step in that direction. It will result in people

1 regenerating and managing a very major renewable resource
2 with substantial energy production. It will become a
3 milestone in the essential conservation and environmental
4 movement.

5 We have at our University an exciting environmental
6 awareness center. We have jointly funded it from CES and
7 CSRS funds and from various grants, and including Title V
8 of the Rural Development Act.

9 Its walls and floors are filled with models and
10 modifications of real communities; it has scale models of
11 conservation areas and recreational developments; it has
12 a scale railroad corridor from Northern Indiana through
13 Chicago, the inner core of Milwaukee, through conservation
14 and recreation and historic and educational features in
15 Wisconsin to Minneapolis and Duluth.

16 It has more, but I mention it as one example of
17 the potential for your own USDA, CSRS and CES to reach
18 millions of people and to create the educational environs
19 for changing values and developing rural America.

20 During the last couple of decades, in recognition
21 of disparities and imbalances and gaps in a changing society,
22 there have been created many helpful agencies and resources
23 for people and communities such as credit, housing, technical
24 services and regulatory services. Add to that the
25 state aids and local resources and we have a giant complex

1 cafeteria from which individuals, families, farms, firms and
2 communities can select.

3 While developing and expanding this giant cafe-
4 teria we have not adequately addressed the fundamental need
5 for its optimum use. We have not recognized nor placed
6 in high priority the value system, the confidence and
7 knowledge base factors in changing people's practices and
8 habits.

9 Most emphasis in recent years has been largely
10 bricks and mortar, on needed aids which have a visibility
11 but with not enough resources to the minds and attitudes
12 which don't have visibility.

13 Given the many kinds of aids and incentives now
14 in the cafeteria, and they may need changing, and given the
15 USDA initiated research and extension education system in
16 place, it wouldn't take very much, comparatively, to deter-
17 mine what that system could do for the three areas I
18 identified earlier, what it did for agricultural production
19 in this nation.

20 The Rural Development Title V, the RREA, the
21 cooperative extension section of the Energy Bill S932,
22 and a comparatively small amount of related support could
23 bring about a great change in rural America within a very few
24 years.

25 Rural development will progress to the degree that

1 people have the educational leadership coupled with the
2 economic incentives to change. National goals must be
3 accompanied with both the cafeteria and the research/education
4 dispensed through locally supported mechanisms in which
5 there is great local involvement and confidence.

6 Thank you for allowing these comments.

7 SECRETARY BERGLAND: And, finally, Representative
8 Locker.

9 MR. LOCKER: Thank you, Mr. Secretary. I felt
10 a little insecure with all the doctors here until I remembered
11 I have an MS degree so I will give you more of the same.

12 Mr. Secretary, I am State Representative Dale
13 Locker from the Ohio House of Representatives. I am
14 Chairman of the Agriculture and Natural Resources Committee.
15 Here today I am representing the National Conference of
16 State Legislatures.

17 We welcome the opportunity to appear before you
18 today and present our views on the structure of agriculture
19 in the 80's, more specifically on the relationship of
20 agriculture and rural development.

21 From among the questions posed to those requesting
22 to appear before you today, we wish to address the relation-
23 ship of USDA's farm role and rural development role, the
24 value of the family farm to the agricultural sector, and the
25 extent to which USDA should assist small and/or part-time

1 farms whose owners earn the greater share of their income
2 off the farm.

3 Agriculture and agriculture-related business remain
4 the largest industry affecting rural America. We agree
5 with the statement made by David Lambert of the National
6 Grange just over one year ago before the House Agriculture
7 Subcommittee on Family Farms, Rural Development, and Special
8 Studies, that "a viable rural development effort, to be
9 effective on a national basis, must find its basis in a
10 healthy farm economy".

11 Thus we feel it absolutely necessary that the
12 Department's commodity programs, agricultural credit programs,
13 research and extension efforts, and environmental protection
14 be undertaken in tandem with its rural development programs,
15 community planning, technical assistance, business and
16 industry loans, and housing and public works grants and
17 loans.

18 We believe in putting it together, so to speak,
19 the operation of these programs should be targeted to
20 maintaining the viability of the family farm. The goals
21 of such a policy: to slow the decline in the number of
22 farms, to increase entrants into the profession, and to
23 favor the owner-operator over the absentee landlord.

24 A viable family farm system of agriculture will
25 in turn maintain the viability of traditional farming

1 communities, including:

2 Small business supplying machinery, fertilizer,
3 maintenance, and other operational needs, as well as goods
4 to meet family needs.

5 Social institutions, churches, schools, et cetera,
6 and civic organizations.

7 Employment opportunities for family members
8 seeking off-farm income.

9 The optimal lifestyle offered by a farming com-
10 munity, when juxtaposed with that within bedroom communities
11 on the periphery of standard metropolitan statistical areas,
12 appears to be appealing to an increasing segment of our
13 population. The full extent of this preference, however,
14 is not totally clear at this time.

15 We urge you to redouble your efforts in pulling
16 together a rural data base to use in fully comprehending these
17 population shifts. We refer specifically to the decennial
18 census, the Census of Agriculture, the FmHA Rural Facilities
19 Study, and the National Agricultural Lands Study.

20 A viable family farm system will also more effect-
21 ively maintain major segments of farmland in agricultural
22 use. For residing within the family farmer is, for want
23 of better words, a philosophical attachment to the land, that
24 can be replicated in no set of economic principles, manda-
25 tory conservation programs or zoning ordinances.

1 Following the report of the National Agricultural
2 Lands Study Committee, we urge consideration of a strong
3 intergovernmental effort to preserve farmland. The North-
4 eastern and Far Western States have led the way in these
5 efforts; the Great Lakes and Plains States are also embark-
6 ing on new efforts as we begin the 80's while we feel that
7 the responsibility for land use policy should remain with
8 state and local governments, the impact of Federal rural
9 development programs, particularly in support of the family
10 farm, will require an intensified dialogue among all levels
11 of Government.

12 The viability of the family farm could also be
13 assisted through an intergovernmental program which would
14 match aging owner/operators and landowners with those wishing
15 to enter farming.

16 State land-grant institutions and the Extension
17 Service could be used to identify participants. Tax incentives
18 for sellers, such as those recently passed in North Dakota
19 and guaranteed loans for start-up costs, repairing or replac-
20 ing machinery, refurbishing buildings, et cetera, could
21 assist in the transfer of ownership as well as operation
22 to the entrant.

23 Here, again, the development and use of a strong
24 rural data base, including information on an operation
25 of similar match-up efforts in Canada and Europe, would

1 assist in studying the feasibility of such a program for the
2 United States.

3 With the emphasis that we place on farmland
4 preservation and on the viability of farming communities,
5 the inclusion of small and/or part-time farmers as
6 program participants makes good sense. The farm and non-
7 farm economies are inseparable in these communities; coverage
8 under USDA programs should reflect that understanding.

9 Thank you, Mr. Secretary.

10 SECRETARY BERGLAND: Thank you very much,
11 Representative Locker.

12 Dr. Hawley, you said in your statement, the last
13 sentence, and I read, "The major research efforts should be
14 mounted to disaggregate and analyze the existing accumulations
15 of data and to generate new data to fill the many gaps in our
16 knowledge".

17 What precisely are you talking about?

18 DR. HAWLEY: Well, let me give a word or two of
19 the background of that statement. I have been associated for
20 the past two years with the Future of Rural American Advisory
21 Group in the Farm Home Administration. We have proceeded
22 by trying to inform ourselves through commissioning a number
23 of papers on different aspects of recent trends, the current
24 state of affairs in non-metropolitan America.

25 One of the lessons we have learned from this is

1 the deplorable state of knowledge that exists. Most of the
2 data -- and there is a great amount of information -- is
3 in greatly aggregated form. We can't even break it down
4 by regions without spending a considerable amount of time
5 to accomplish that.

6 To say nothing of smaller localities by type
7 of agricultural area, by other industries.

8 So, we have had to proceed without the benefit
9 of that. There are areas such as rural housing, non-metropol-
10 itan housing on which nothing is known, although the data
11 laden in the Housing census has been surveyed.

12 Nothing is known about the frequency of under-
13 employment and unemployment. Again, in that kind of area
14 I can go through a long list of aspects of the rural scene
15 with this kind of statement.

16 There are also a lot of problems that have been
17 completely ignored. I may say that almost none of the farm
18 programs include any evaluation mandate.

19 They stand without benefit of that kind of
20 ascertainment of their effect.

21 But, what is happening in the way of industrial
22 development in the rural areas is very sketchily known.
23 We don't know much about the barriers to mobility. We
24 haven't a very good idea about what programs do, agricultural
25 programs do, to community capabilities that deal with their

1 problems.

2 We don't know much about the optimum scale of
3 communities -- well, there are a great many things that
4 we don't know and it does make a long list.

5 SECRETARY BERGLAND: I am very interested in
6 that because I didn't know that we were that far away.

7 DR. HAWLEY: Well, there are a great many studies
8 that are highly localized, not very specific, but they
9 do not give us the breadth of understanding that is needed.

10 SECRETARY BEGLAND: For almost seven years I
11 represented a district in Minnesota for the Congress of the
12 United States. My opinion is, most of the poverty in that
13 Congressional district, talking about rural poverty, could
14 be attributable to underemployment. A person simply did
15 not have enough to do, and they were locked in. They could
16 not leave, they couldn't find a job.

17 It was a serious, sad situation. Okay.

18 Mr. Reeves, you are proposing a set of non-economic
19 values be introduced into developing economic strategies.
20 In apolitical environment that is sometimes hard to do.
21 Any advice on how we might go about it? Getting Congress
22 to take into account some of the very excellent recommenda-
23 tions your colleagues have suggested? Or, do we have to do
24 it surreptitiously?

25 MR. REEVES: Well, I think ther are some ways

1 in which it can be done quite openly.

2 One of the things that surprised me in the 65
3 groups I have talked about, they are not all rural groups.
4 Some of them are very urban and many of them are mixed
5 groups of people, and even families who have been away
6 from grandpa's farm for two or three generations have a
7 very strong, warm feeling about a style of agriculture and
8 at first blush they are often very sentimental.

9 But, if pressed, people are able to articulate
10 some of these values and why they are important.
11 So, it seems to me that there is -- I don't think I over-
12 state the broad basis of support there is for looking at
13 this kind of structured agriculture.

14 I think even in the metropolitan areas there
15 are people whose feelings are such that they wouldn't object
16 to support that was focused in this direction, particularly
17 I think if you look at the body's resources that are now
18 used to support agriculture; if you look at the distribution
19 of wheat, feed-grain benefits for 1978, for example.

20 It is clear that a third or a quarter of those
21 at least went to very large farms. And enabled those families
22 to have something considerably beyond the national average
23 income, or the national median income.

24 So that within the bounds of the resources now
25 being used, there are some things that could be done in terms

1 of redistribution, and I am not clear whether we are talking
2 about limits, or whether we are talking about graduated
3 payments, or some graduation of that.

4 I think that the tax rules that we have in place,
5 a similar kind of approach could be made. You know, we
6 spend, or don't collect, a million dollars a year, give or
7 take some, for specifically ag-related tax expenditures.
8 It is clear that most of these go to people who don't need
9 them.

10 If you made some of it related somehow to family
11 incomes, so I would suggest that looking at the distribution
12 of the things that we are now doing, or give some flexibility,
13 that would help us refocus in this direction.

14 Beyond that, there are trade-offs, and you probably
15 can't push very far against this economic curve, but we
16 ought to be clear that insofar as these values are concerned,
17 they are taken seriously. We move against the curve, rather
18 than accept some big argument, bigger, better, cheaper, or
19 something of that character.

20 SECRETARY BERGLAND: Well, I congratulate you and
21 your colleagues for doing a great deal of creative thinking
22 in this area.

23 Dr. Madden, the budget of USDA is about \$49
24 billion or so. The biggest portion of that goes into
25 rural development. I suppose it is \$15 billion, maybe more.

1 There is a limit to what we can get in the way
2 of money. I think we are probably at the limit, especially
3 when we are confronted with a balanced budget requirement
4 to check inflation.

5 How then do you think that we can best redirect
6 this substantial budget of \$15 billion to meet the rural
7 development needs? Where would you start?

8 I am not calling for a total blueprint, but what
9 one thing would you do?

10 DR. MADDEN: One thing that I would focus on is
11 increasing the capacity of the rural communities to identify
12 their own needs, and opportunities, and through a combination
13 of activities such as CRD, as was mentioned earlier.

14 SECRETARY BERGLAND: Help me with that acronym.

15 DR. MADDEN: Community Resource Development, that
16 kind of technical expertise, plus research backup in which
17 you would, upon trying a certain initiative evaluate it to
18 see whether it is working and provide a feedback of improve-
19 ments in each approach.

20 We have an awful lot of pilot studies in which
21 something is tried throughout Government, not just agriculture
22 but in labor and every other department, and pilot studies
23 are done in which a bright idea was tried and yet the body
24 of knowledge is never creative in which one could predict,
25 and therefore, describe how the future should unfold.

1 So, I would say that if there is going to be one
2 change, it would be to focus more on increasing the capacity
3 of the community to identify their own needs, to meet their
4 own problems, rather than simply relying entirely on capital.

5 Capital is certainly essential, but the local
6 people should have the opportunity to have a say in shaping
7 the rural development strategies.

8 SECRETARY BERGLAND: Do you think we should require
9 the community to develop a strategy before any money is
10 dispersed?

11 DR. MADDEN: That sounds like the grand require-
12 ment. Require them? Certainly not, but I say, give them
13 the option, give them the expertise. This is being done
14 very successfully in communities where I have visited on
15 site visits.

16 I have seen where the communities are given the
17 support, a combination of research backup information, plus
18 the CRD type of training. I find that they are able to
19 come to grips with the problems much more effectively.

20 So, I would say, don't, don't require it, but
21 certainly make it available to them.

22 SECRETARY BERGLAND: Dr. Vanderberg, what do you
23 think about this?

24 DR. VANDERBERG: I have developed a great deal
25 of faith in local people and their judgments, given adequate

1 facts and given the chance to consider adequate facts.

2 As I said earlier, I think what you have started
3 in this dialogue is something that needs to be continued
4 with large numbers, masses of people, both urban and rural.

5 I think once they do come to understand and have
6 a part in discussing issues and understanding issues, that
7 there will be a kind of support for values and perhaps
8 changes in even the kinds of incentives I was referring to
9 that may help bring about change.

10 I think that it is possible to develop a base,
11 a philosophy that says, you are developing technical programs
12 and financial programs to go to communities, or to be used
13 by communities and farms and firms and families, build a
14 portion of research and education right in conjunction with
15 them.

16 I refer to the Energy Bill. It carries a piece
17 of legislation, or the Cooperative Extension Service, or the
18 World Development Bill, in some of its redesigning, very
19 well carry the research and education function in proportion
20 to the other functions in the resources that that bill
21 provides.

22 I think there is a relationship.

23 SECRETARY BERGLAND: One of my frustrations with
24 Federal programs is that they tend to go up like loose cannons.
25 You never know where they are headed, or why, or who points

1 them.

2 We are trying to find a better way by seeing what
3 we can do and investing preemptive power in local communities.
4 Giving to the local authorities, no matter what they may be,
5 county, city or township, the power to plan, and direct, and
6 control Federal loans and grants.

7 Do you think that makes any sense? Now, if you
8 shake the tree it is first come, first served, and whoever
9 gets in with the biggest push will get the money without
10 regard to priorities, or needs or assessments.

11 DR. VANDERBERG: Now, something of that may be
12 happening, but I believe that there is a rationale to a
13 design involving local people in the priorities and in the
14 use of resources, and selection of resources in given areas
15 at a given time.

16 It just seems to me that we have not provided
17 for that experiment, if you will, of adequate knowledge and
18 research and information that was referred to here earlier,
19 that would be used as a base for decision making.

20 I think given the same facts and the same sets
21 of information, they would come to the same kinds of decisions
22 some administrators make.

23 SECRETARY BERGLAND: I think you are right.

24 Representative Locker, you quote a statement saying
25 that the rural development program should be farm based.

1 The believe, I suppose, is that you don't have a viable
2 productive generally active agricultural economy, then the
3 rest isn't going to work anyhow.

4 Are you suggesting that it be limited to sort of
5 a farming base. I am thinking, for example, of my own family.
6 My wife and I have one son and six kids, one of whom will
7 farm and the other five will not. Should we care about that?

8 MR. LOCKER: I am sure you should care about it,
9 and so should all of us.

10 SECRETARY BERGLAND: I care as a parent, but should
11 the Government care about it?

12 MR. LOCKER: The point I was trying to make, a
13 lot of programs are geared to a lot of other entities in the
14 rural area, rather than the small farm.

15 I look -- the railroad used to come through, pick
16 up the farmers commodities at the small elevator, because
17 there were so many of them. They were alive and moving,
18 bringing in the lumber and what have you, to the hardware
19 stores and the lumber mills, so you had a good thing going.

20 We have watched this drain off. That is a concern
21 I have. We don't have a viable farm base. One large farm
22 will not consume and will not be as viable in the marketplace
23 as will a number of small ones.

24 When you are talking about the entire farm community,
25 when you are talking about services offered, and what have

1 you. At least that is my concept of this, and I have seen
2 it happen, and I have seen it in the areas where I am from
3 now, Western Ohio.

4 I see that we have communities -- as an example,
5 the housing problem, the low -income housing. What it is
6 doing is siphoning off some of the farmland, because we
7 require five acres to build a house. We are breaking down
8 the farmland for that purpose.

9 We have the sewer and water, and in some places
10 we are encouraging them to go, so I am saying, yes, you
11 ought to be concerned. The Government maybe ought to be
12 cncerned. If we don't maintain the farm base and if we
13 don't maintain the small family farm base, it is not going
14 to make much difference.

15 I think it is like the man who would do anything
16 for a million dollars, but found it difficult to spend, and
17 once we get the bigness and solution, we may find that
18 literally we have more problems because we are talking to
19 just a very few.

20 The oil situation, the foreign neighbors, ought
21 to tell us something about bigness, and the problems that
22 develop when you have such control and such a view.

23 SECRETARY BERGLAND: Thank you very much.

24 Howard?

25 MR. HJORT: I am not really sure that I know where

1 to start on this one. As I listen I hear suggestions, and
2 good suggestions.

3 One that we do take the data that are available
4 and augment that and break it down and move from these
5 aggregate sort of statistics to provide the kind of informa-
6 tion that will guide policies more precisely supposedly.

7 I hear that we should give greater attention to
8 social and community costs in connection with policy develop-
9 ment. That there should be greater involvement in the local
10 area, and the opportunity for them to assess their own
11 situation, and come forward with proposals, active interaction,
12 moving up from the bottom, so to speak.

13 I hear that super large farms are not it. I
14 believe I detect the impression that there is a significant
15 gap between what we are doing in terms of rural development
16 in this nation, and what we are putting into the research
17 and extension activity to support that effort.

18 I get the impression that if all of these
19 recommendations in some part probably wishes, were accepted
20 and in place, we would see a non-metro area where there
21 would be job opportunities for those who do not have the
22 resources of agriculture.

23 There would be the opportunity for those with
24 small farms to augment their income from non-farm sources.
25 That it would be a nation of small to medium, or at least

1 would not really have the super large farms, and in turn
2 I gather that the judgment is that that would mean greater
3 community stability, and I gather the judgment is that we
4 really would not lose much in terms of efficiency criteria,
5 and we would probably have a higher net social benefit.

6 I guess I will ask the general question. Am
7 I summarizing properly? And, if I am, how then do we go
8 from here?

9 I guess I would ask also one or two other things.
10 We seem to be riding on some trends, some that move us
11 in the direction that you -- the portrait that you have
12 painted, and some were in the opposite direction.

13 The reversal of the migration pattern has been
14 documented for us. The Secretary has referred to the rather
15 massive flow of funds. I say massive. Certainly compared
16 to when I was here before.

17 I think most of the funds that have been loaned
18 in the name of rural development by this Department have
19 been so in the last three years, more than in their entire
20 history.

21 That is a considerable flow, yet it appears that
22 we continue to have a trend, and I gather a perception from
23 not only this session, but others, that supersized units
24 are developing rather rapidly, and that this change in the
25 social fabric of rural America is changing.

1 With all of that, what do you suggest that we
2 do that we are not doing now in the name of policy to try
3 to achieve that vision that you have?

4 Dr. Hawley first, and then we can go right down.

5 DR. HAWLEY: That is quite a question. Well, it
6 seems to me that the basic policy strategy has to be identi-
7 fied. To me it seems that the first phase of rural develop-
8 ment policy ought to be to foster the convergence as between
9 metropolitan and non-metropolitan areas.

10 With reference to opportunity, access to services,
11 and local capability to take care of their needs with or
12 ithubout Federal assistance.

13 If that is the kind of objective that a policy
14 should be aimed at, then there are a number of implementations
15 that one might think about.

16 For example, you might wish to -- you might
17 feel compelled, rather, to do what is necessary to facilitate
18 the mobility of labor so that it will not be stagnated in
19 pockets of poverty and isolated from educational facilities
20 and other human capital development opportunities.

21 You might also wish to think very carefully about
22 what kind of industrial development should be allowed into
23 non-metropolitan areas.

24 Whether it will have a developmental or lifting
25 of the capability of labor to participate in the industrial

1 economy.

2 There are questions, it seems to me, of viability
3 of small farms. Of whether or not they should be subsidized,
4 and what are the costs of subsidizing them. The human costs
5 as well as the financial costs.

6 In some instances, it looks to me like the mainten-
7 ance of the working core, rather than maintenance of the
8 traditional values of agriculture.

9 In general, I think, if you think of it in terms
10 of trying to hasten the convergence between these two broad
11 sectors, and there is change moving, and I think what has
12 happened to the non-metropolitan areas is an urbanization.
13 They are being brought into the same institutional pattern,
14 exposed to the same information, news, consumer habits and
15 the like, and the same kinds of disparities of opportunities,
16 and those disadvantages should be reduced.

17 That would seem to me to be a major policy change.

18 MR. HJORT: Just following on that last comment,
19 in taking on values that are similar to urban values, are
20 there other values that you believe -- that can be preserved?
21 Other positive values that have been associated with a
22 rural area.

23 I mean, can we end up here where we have the
24 health services, the education services and so on available
25 to people, but yet not have the congestion, the compaction

1 and so on, and the other -- whatever sorts of negatives that
2 seem to be now encouraging or pulling people back into the
3 rural area, if they do have these other services?

4 Is that possible, or do we lose that set of
5 values in the reverse migration process?

6 DR. HAWLEY: I suspect in the development of
7 scale economies, scale of organizations, you lose certain
8 traditional values. Others are substituted for them.

9 I am not sure that advanced education has a
10 traditional rural value, but that could be a requirement for
11 effective participation in modern society.

12 I am not sure that access to full as possible
13 flow of information is a traditional rural value, but again,
14 if you want an informed electorate, that should be hedged.
15 So, some things, some parochialism, some localisms, will
16 perhaps be lost in an effort to attain the same kinds of
17 opportunities that are in metropolitan areas.

18 There are a lot of physical characteristics in
19 the metropolitan areas which it seems to me be diminishing.
20 I think the density of population is one of them, the density
21 with which organizations are concentrated, industry as well
22 as many other things.

23 The land loss in our metropolitan areas, the
24 sectorial changes in industry which allow a wider spread,
25 the search for managers and workers as well as other things,

1 these are moving in on what has normally been an urban
2 monopoly, much more widely over the country.

3 MR. HJORT: Thank you, Mr. Reeves.

4 MR. REEVES: Most of us who work for religious
5 institutions in this town have an agenda that is longer than
6 you can imagine, but I came here from meeting with a group
7 of 4-H leaders who met on health care, and they were some-
8 what appalled, I think, when one of my colleagues speaking
9 of health care, talked to them only about a national health
10 insurance program.

11 Here are a group of volunteer people from
12 communities who are interested in working with kids at the
13 level of what can they do as individuals, to build and
14 maintain good health. Somebody who was describing to them
15 health care in terms of a system for delivery.

16 One of the things that is really a building of
17 spirit, I suppose, and it is probably more my job than it is
18 yours, is to encourage people in a sense to take charge
19 of their lives, to become involved at every phase.

20 The second thing I suggest would be, to repeat
21 something I said in the statement, which is to count all
22 the costs. We simply have not counted all the costs. We
23 have moved people off of the farms and did not ascribe back
24 to the food bill what it cost to train and move people, or
25 the welfare costs of people who got moved and didn't

1 successfully get back into the system.

2 Now, it may be changing with the reverse migration,
3 but certain kinds of community services are proportionately
4 more costly.

5 So, those are economic costs that we have
6 encountered. I think we are even slower in coming to count
7 the spiritual costs, the cost of what is happening to us
8 as people, and we are going into a society that makes vir-
9 tually all of its decision on rather narrow economic analysis,
10 and in particular when continued growth will be more difficult.
11 We are going to have to find whole new system, whole new
12 ways to define success and achievement which don't involve
13 this narrow materialistic view.

14 So, that kind of a change of spirit I am involved
15 in, and I hope it will be reflected in the public policy as
16 we go along. Specific handles.

17 Maybe the tax rules that we have are the clearest
18 expression of what we think is important. We have subsidized
19 the substitution of capital for labor. We treat income from
20 inflation more gently than we treat income from wages, and
21 there are many specific business and farm applications which
22 I think accentuate structure problems also.

23 MR. HJORT: Thank you very much. Dr. Madden.

24 DR. MADDEN: My agenda is not nearly so long.
25 Just four points.

1 First, I would suggest that there is a need for
2 a policy statement dealing with small farms and rural
3 development, in which the goals and values would be articula-
4 ted. We have heard today a lot of antidotes about contrasts
5 and conflicts between various goals and values.

6 Second, we need to identify what those -- we
7 need to identify what the conflicts themselves, between
8 legitimate and competing goals, and face up to the fact that
9 there are conflicts between legitimate goals.

10 Third, as policies are put into place we need to
11 evaluate them and we need to collect data, not just of the
12 descriptive kind as has been mentioned here several times,
13 but also what we would call the causal parameters so that
14 we can understand how we get from point A to where we want
15 to be in Point B.

16 Then fourth, I would suggest that we support
17 that which proves to be successful through this evaluation
18 effort, and that is, to make the funding of program contin-
19 gent upon the merit of the programs, and not just on the
20 political support.

21 For example, I see very little hope in the near
22 future of creating -- of anyone creating a constituency to
23 support the whole concept of capacity building. That is
24 too abstract. Increasing corn yield and improving environ-
25 ment, et cetera, these are concrete things to a lot of people.

1 Things that get people emotionally involved and committed.
2 Capacity building is much too abstract. Yet, it bears very
3 good fruit.

4 I think if we were to fund programs on the basis
5 of their intrinsic merit as determined in a hard-nosed and
6 objective and ongoing evaluation, then we would wind up with
7 a much more solid basis for making decisions and bases
8 supporting the programs.

9 And, as Mr. Secretary said, there is \$15 billion
10 for all development. We are talking about less than one in
11 three thousand dollars going into the kind of effort we are
12 talking about now, if my arithmetic is correct.

13 So, there is a very small fraction that is currently
14 going into that kind of activity at the present time.

15 Thank you.

16 MR. HJORT: This you are saying, in doing this,
17 you would take into account not only the economic costs but
18 the net social costs also? Net social benefit concept in
19 here.

20 DR. MADDEN: I would agree with Mr. Reeves on that.
21 And, at the same time, I don't know that the equation
22 would always come out quite the way we would expect.

23 For example, I escaped from a farm in that
24 Irish State "O'Regon", and I have been eternally grateful
25 in view of the fate of those who were left behind, that I did.

1 In an economic and I think social sense, even
2 though I am very fond of my hometown, so I think we would
3 have to add up all of the social and economic costs in
4 order to be fair about it, we ought to match up all the
5 social and economic benefits of those.

6 Yes, certainly a lot of people did in the process
7 of being forced out of the employment in rural areas, did
8 wind up worse off, unemployable and so forth, and on the
9 Welfare rolls, and other were gainfully employed, and I
10 think to be honest about it we have to add up both the
11 benefits and the costs.

12 MR.HJORT: Dr. Vanderberg.

13 DR. VANDERBERG: Let me just say that I think
14 that we didn't get to the kinds of situations that we have
15 described in a hurry, and they won't disappear in a hurry.
16 So, I don't want us to panic about something or another.

17 But, since 1930 or thereabouts there has been
18 a great deal more influence on decisions that people make,
19 that businesses make, and individuals make, on the sizes
20 of farms, for example; on locations of businesses; on all
21 of the decisions, the way in which they use land and water
22 and the national resources.

23 Decisions are usually made based on incentives,
24 and values held, and knowledge. The kind of incentives
25 and disincentives I was referring to earlier, would not be

1 a very popular political process. I am talking in my
2 discussion about process, about bringing about change and
3 accord among those who administer and those who are in
4 Government and those, the rank and file.

5 That is a long term process, not a quick process.
6 Obviously, it can be disasterous politically and it won't
7 get supported, some of the things I am suggesting at least,
8 until and unless there is a great deal of understanding by
9 people, both rural and urban that does not exist at this
10 time, and a great deal of discussion and involvement.

11 It will not be one that will go for required
12 programs of this and that. I remember when they passed a
13 law in Wisconsin, I remember sitting on a three-legged stool
14 and in a year every farmer is going to have a milkhouse.

15 Where it wouldn't work, they simply pushed it
16 off to get an educational program going. What are the
17 incentives to you as a dairy farmer, and it took place.

18 I maintain that you can bring about change over
19 a period of time. We fully intend to carry these dialogues
20 into the 3300 counties.

21 MR. HJORT: A followup question. Every year as
22 we go through the budget proposals that come in from the
23 various agencies of the Department and carry through that
24 process, it is always very striking to note the inverse
25 relationship between programs level and research and extension

1 funds. We still put most of the public money inside the
2 internal or at the university into the traditional, the
3 agriculture and marketing and so on.

4 In terms of proportion of program level, we have
5 about a small proportion going behind rural development,
6 small communities and rural development.

7 Why is that going so slow?

8 DR. VANDERBERG: I don't really want from what
9 I am saying to detract for the need for continued research,
10 basic and applied, and that very fragile margin of agricult-
11 ural production of food and fiber in this country, and
12 for the world. It is a very fragile margin.

13 MR. HJORT: I am not necessarily putting it in
14 a tradeoff either, but why haven't we as a society, as
15 the universities, the Federal Government, the state government,
16 why aren't we putting more resources into research and
17 education and the kinds of things that have been talked
18 about here? It seems to me that the programs are moving much
19 faster than our knowledge of how those programs can be
20 best effectively used in the proper way, and I am raising
21 that question.

22 Where do we find ourselves in this situation?

23 DR. VANDERBERG: I expect research follows the
24 kinds of interest and concerns that -- regarding the kinds
25 of decisions and situations people find themselves in, and

1 those happen to be situations created largely by the kinds
2 of incentives and goals and processes that we have been
3 talking about.

4 Once we have some national goals that are
5 clearly understood, that there are some values. That may
6 not be cheap food. That may not be the value that is held
7 high, but some other value. Once those are understood and
8 agreed to, it seems to me that we would get more support
9 from the electorate.

10 MR. HJORT: Thank you. Representative Locker.

11 MR. LOCKER: Being somewhat of a farm boy I
12 always hated to be on hind tip because there is no nourish-
13 ment there at all, and I don't think I can give you anything
14 at the end of this. What all these gentlemen have given
15 you, good words, but let me try to respond with some thoughts.

16 I would like to respond to what you said last.
17 One of the reasons why we lack the knowledge is that a
18 good many of the programs come from Washington or the state,
19 but the knowldge and understanding has to come from the
20 individual receiving it from the communities.

21 Many times there is no link between those two.
22 The research they understand and they implement, assuming
23 that was just a short sheet of explanations, that is oft-
24 times sufficient.

25 We are talking about changing total attitudes and

1 acceptances and what have you. I think that is a part of
2 the reason. It is communications. I hate to use that word,
3 it is beat to death, but it is a communications problem.
4 e operate in vacuums. We, at the state level continually
5 harangue you boys in the Federal Government about your
6 regulations, and when you give us one, we give them 27.

7 We are really trying to make it fit. What it is,
8 think of the poor devil who gets it.

9 Let me give you an example of a small problem.
10 Land conversion in my area is a serious situation. I men-
11 tioned a while ago the individual homes supported by farm
12 home loans, low interest loans. It takes five acres to build
13 on those. That is five acres of land shot in the rear.

14 However, the cost of that house today is even
15 then prohibitive for them to make the payments. Do you think
16 they can get a low interest security loan from Farm and Home
17 on a condominium unit which they could really pay for within
18 their resources, 30,000 versus 65.

19 No, because the rules don't allow for that.
20 That is the point I am making. The rules were probably
21 generated properly with a lot of thought and research and
22 understanding, but now it is getting down to the level that
23 times have changed and the people from the Home area are
24 looking and saying, they really don't want me to have that,
25 and now let me go a step further with my sermon.

1 We talk about energy savings. Wherein is a better
2 place than a condominium, when you are talking about energy
3 savings?

4 We talk about land conversions, there we can have
5 six units, not 30 acres, but a much smaller amount of land
6 conversion.

7 Transportation, normally they are closer to a
8 city area. Is it forcing people to go there? No, a good
9 many of the people that were getting the individual housing
10 in the country would just as leave have it closer to town,
11 but for reason or another, either land cost, whatever.

12 A couple of other comments. I think I jotted
13 one word here to myself, and I think I will share it with
14 you. It is a vision.

15 We have a tendency to look at our problems today
16 from where it was we came from yesterday, which we have to
17 do as history. But it has a tendency to tie us into doing
18 the same thing. We will modify a little bit. We will
19 use blue chips instead of red ones, and get right down the
20 same path.

21 I think we are in a position where we have to
22 make some kind of dramatic changes. Why did the people
23 leave rural America and go urban? Because they really
24 wanted to be there?

25 No, evidently not. Because now they are coming

1 back, and as you mentioned there is that shift.

2 One or two things. The programs were not there
3 when they needed them, or the programs that were there were
4 not sufficient, or they were not aware of them.

5 I might also say they didn't like the city life,
6 but I really would believe that they had to know basically
7 what that was to some extent before they got there, because
8 a lot of them were driving into work. They just finally
9 gave up.

10 I would say one other thing, the reason we need
11 to preserve the small family farm, that small family farm,
12 and we can beat it to death however we want to, but the
13 work ethic is still a strongly constructed rural creed.
14 And, you will find it is stronger there than you will find
15 anywhere else.

16 There is something about a farm kid, a rural
17 kid is given additional instructions, and we don't have that--
18 and the larger the farm becomes, the responsibility becomes
19 his. The absentee owner, not mine.

20 We have that as a part of our problem in the
21 urban areas. It becomes the problem of the union leader,
22 the company manager, whatever, but it is not mine.

23 I have taught in the rural schools for a hundred
24 years, and I am going to tell you, we we look at the
25 efficiency as being related to bigness, as being related to

1 getting the job done, and saving money. People just look
2 at the educational system. We manage to get efficient.
3 There is only one small problem. The kids are not getting
4 the education now, at least not what we are asking them to
5 get. I think that is what the concern is.

6 What I am talking about is rural programs, we
7 gear towards bigness as we have mentioned. We have a
8 tendency whether by design or accident not to fit the smaller,
9 and it is not that you maybe want to get rid of it, but
10 in essence that is what happens.

11 I think that is kind of a shotgun approach to
12 some comments I wanted to share with you.

13 MR. HJORT: Thank you very much.

14 SECRETARY BERGLAND: Thank you very much gentlemen.
15 This has been a very excellent, stimulating, provocative
16 panel. I apologize for the hour, but it was necessary to
17 get all of this into the record, and for my own information
18 and training.

19 This will bring this day's program to a close, and
20 we will convene tomorrow morning at ten past nine.

21 (Whereupon, at 5:35 p.m. the hearing was adjourned,
22 to reconvene the following morning at 9:10 a.m. o'clock)

REPORTER'S CERTIFICATE

DOCKET NUMBER:

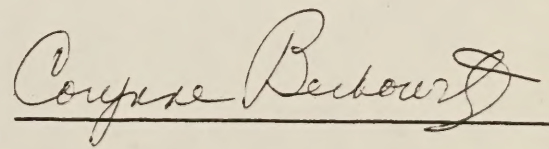
CASE TITLE: Structure of American Agriculture and Rural
Communities

HEARING DATE: April 30, 1980

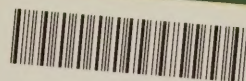
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence
herein are contained fully and accurately in the notes
taken by me at the hearing in the above case before the
the United States Department of Agriculture
and that this is a true and correct transcript of the same.

Date: May 12, 1980



Official Reporter
Acme Reporting Company, Inc.
1411 K Street, N.W.
Washington, D.C. 20005



R0000 154859



R0000 154859